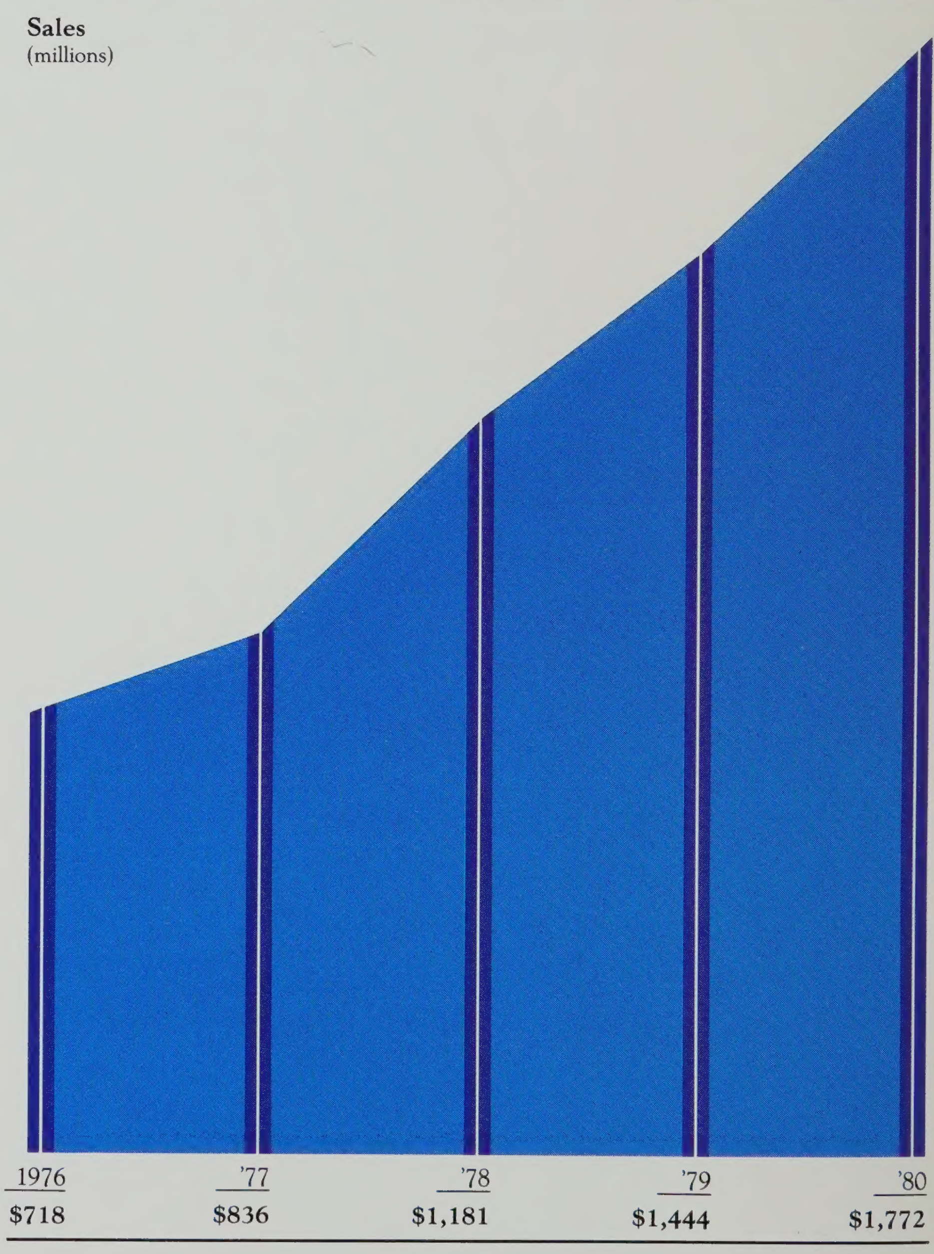
SmithKline Annual Report 1980 Perspectives from 150 Years

CORPORATION

Cover illustration: During 1980, SmithKline Corporation celebrated its 150th anniversary. From this unique perspective, we review our progress and look forward to future growth as a worldwide enterprise.

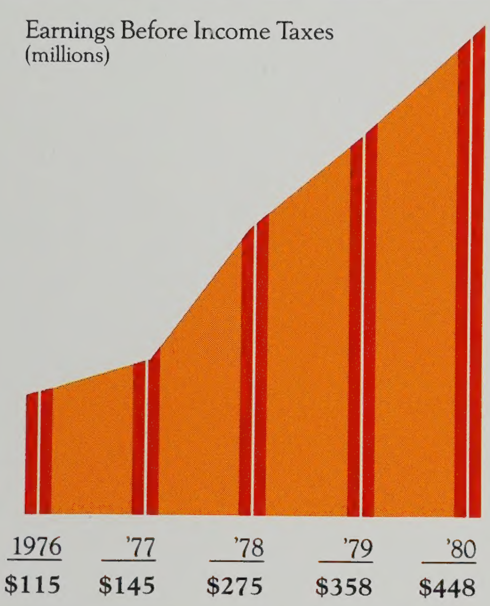
Highlights

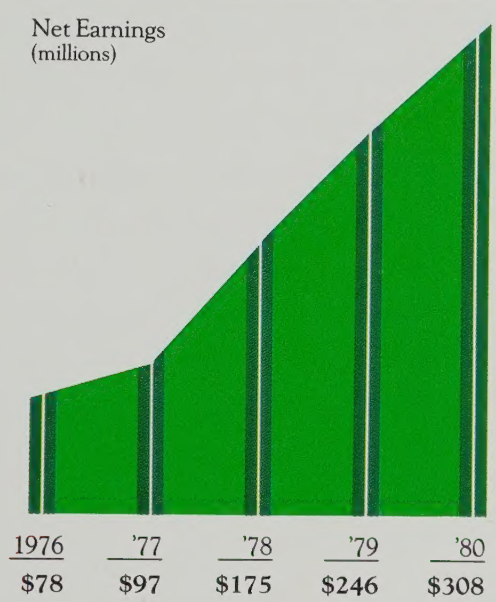
SmithKline Corporation is primarily a health care company. We research, develop, manufacture and market ethical pharmaceuticals, proprietary medicines, animal health products, and both ethical and proprietary eye care products. Through our network of clinical laboratories in the United States and Canada we provide medical laboratory services. SmithKline also participates in the industrial and medical instrument fields by researching, manufacturing and marketing ultrasonic and electronic instruments.

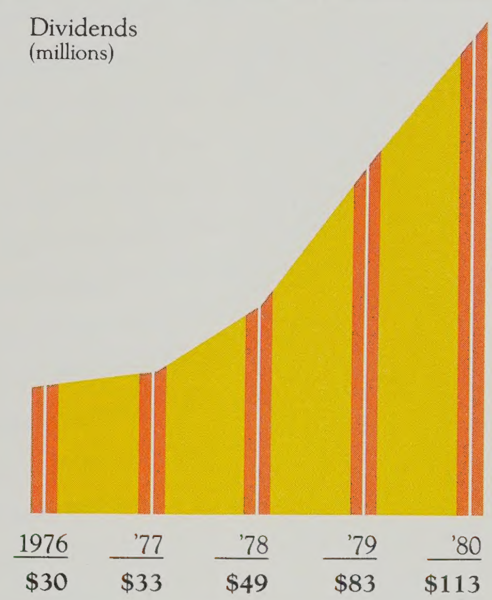


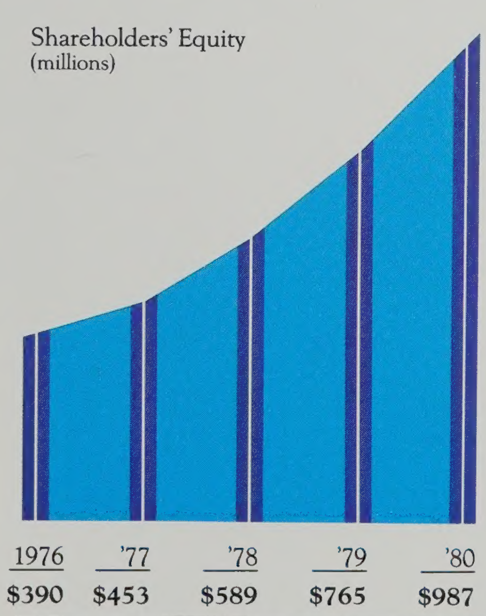
	1980	1979*
Sales	**$1,771,938,000**	$1,444,170,000
Earnings before income taxes	**$447,694,000**	$358,411,000
Net earnings	**$307,994,000**	$246,011,000
Per share of common stock:		
Earnings	**$4.65**	$3.76
Dividends	**$1.725**	$1.32
Shareholders' equity	**$987,220,000**	$764,551,000
Capital expenditures	**$132,806,000**	$100,970,000
Research and development expenses	**$135,832,000**	$103,194,000
Number of shareholders of record	**19,641**	17,896

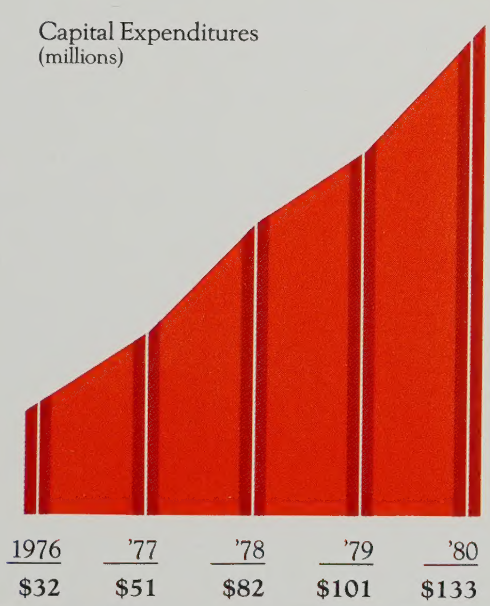
*Restated.

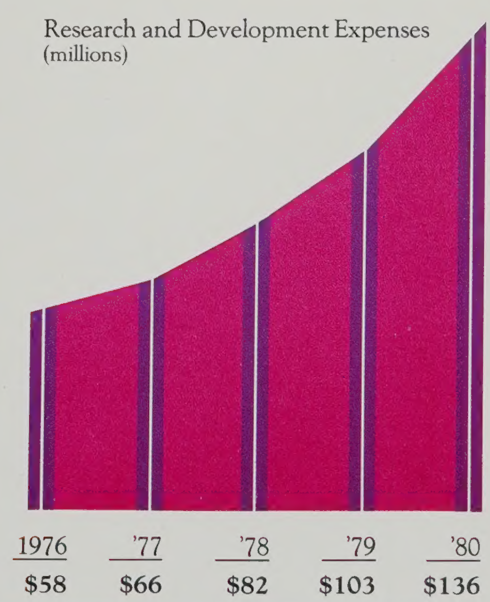












A Special Message to Our Shareholders

1980 was a fine year for SmithKline. Sales were up 23 percent, pretax income was up 25 percent and net income rose 25 percent.

These results are especially pleasing in light of worldwide economic pressures. Despite high rates of inflation, price increases for SmithKline products accounted for only four percentage points of the year's sales growth. While the Corporation created almost 1,500 new jobs in 1980, our productivity continued to rise. Since 1977, sales per employee have increased by 20 percent on an inflation-adjusted basis.

The year was special for another reason as well. During 1980 we celebrated the 150th anniversary of the Corporation. This event marked a century and a half of progress and expansion that has seen our Company gain a place among the world leaders in health care, science and technology.

Looking ahead from our 150-year perspective, we see continued implementation of the strategies that have brought us to a leadership position. In this special message, we will share with you the objectives and directions established for our business groups in order to achieve steady progress in the years ahead.

SmithKline's new Corporate headquarters building at One Franklin Plaza is now a prominent feature of the Philadelphia skyline.

Robert F. Dee
Chairman of the Board and Chief Executive Officer

Corporate Objectives

• SmithKline will remain a scientifically and technologically oriented company with primary focus on the health care field, providing goods and services that are safe, effective, of high quality and fairly priced.

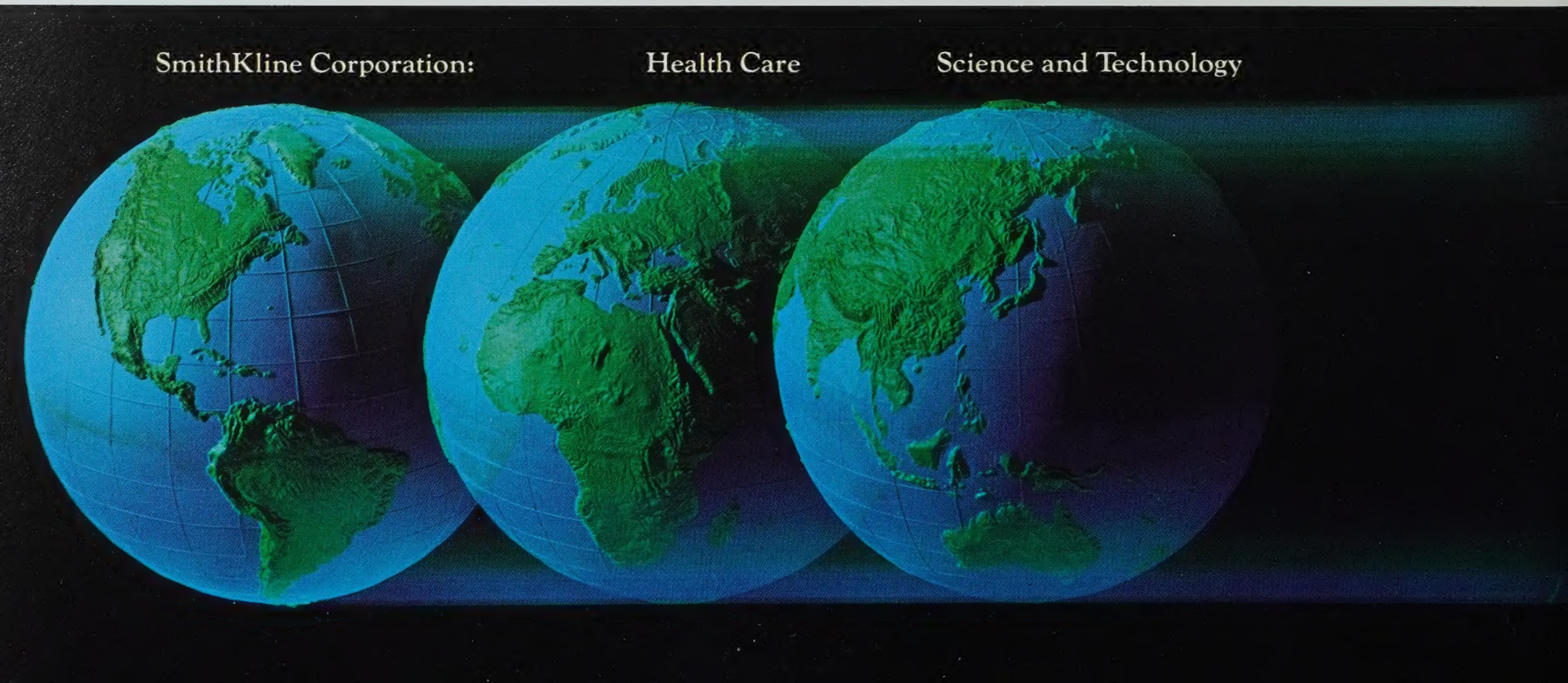
• We will conduct our business in all major world markets offering satisfactory long-term sales, earnings and return on investment potential, thereby providing reward and growth opportunity for both shareholders and employees.

• As a technology-oriented corporation, we will seek to make major advancements beyond currently available products and services. We will continue to commit major resources to innovative research and development.

• We want each of SmithKline's groups to be strong, healthy, viable businesses among the leaders in their key product lines. We expect to concentrate our efforts on growth in our present fields of operation, in other attractive segments of the health field and in fields with related technology.

• We expect SmithKline to be among the fastest growing corporations in the health care field. We are aiming for sustained, steady, consistent Corporate performance.

• We will pursue an annual Corporate growth rate objective in sales, pretax earnings, net earnings and earnings per share sufficient to rank SmithKline in the top quartile among our competitors. We intend to maintain operating margins



and return on shareholders' equity at levels among the best in our industry. This annual rate of growth and return on equity should assure funds for further expansion of the Corporation and return to shareholders through dividend payments.

• We will strive to conduct our businesses, employee relations and other Corporate affairs in a way that commands the respect not only of our customers, employees and shareholders, but also of local communities and national governments.

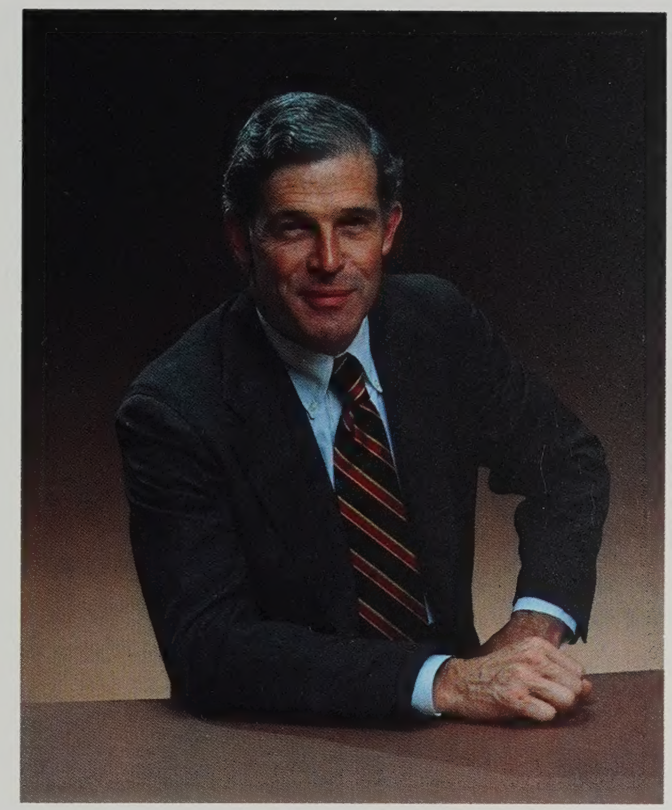
Tactics for Growth

We will pursue our growth objectives by allocating considerable financial resources toward internal and external expansion.

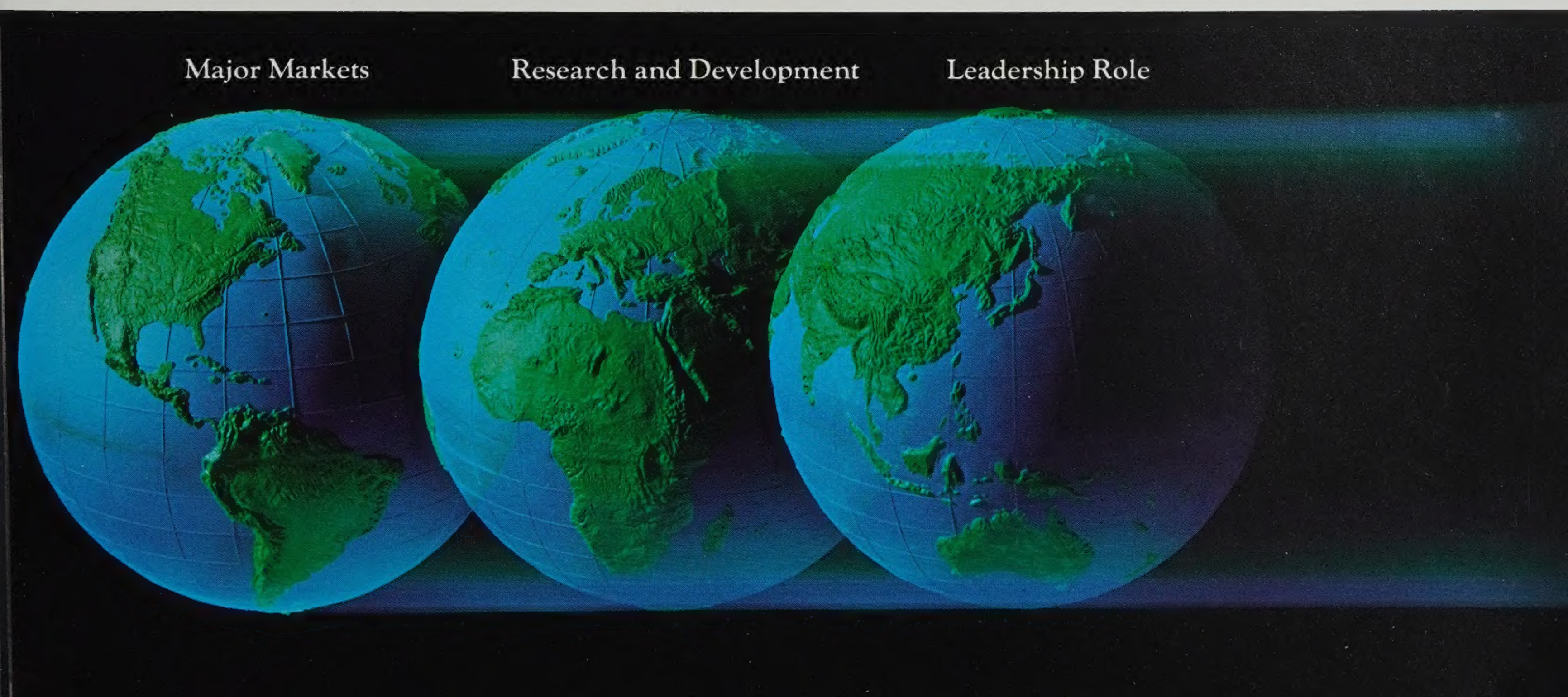
R&D expenditures are budgeted at approximately $170 million for 1981, up 25 percent over 1980's $136 million. Capital investment programs in the range of $200 million are planned for 1981, an increase of approximately 50 percent over the $133 million allocated in 1980. Nearly 80 percent of this investment will be used to expand our pharmaceutical facilities.

In each of our business groups, we have strengthened our position in major world markets. Tactical plans have been developed to pursue growth opportunities.

In our ethical pharmaceutical business, we are seeking growth from our current product line and from entry into other important areas of medical therapy. We intend to build on our strong position in the gastroenterological and cardiovascular



Henry Wendt
President and Chief Operating Officer



fields. We plan to enter the area of anti-arthritic and immunoregulatory therapy through the introduction of auranofin. Auranofin (trademark 'Ridaura'), for the treatment of rheumatoid arthritis, is now in the final stages of development.

Our proprietary drug operations will focus on major products in the self-medication market. We are actively seeking new product entries in the United States and internationally. Geographic expansion will be an important target.

In our animal health business, we will concentrate on improving the feed efficiency of livestock and on the prevention and treatment of animal diseases. Balance among products and widespread geographic presence should help us to sustain above-average growth in this business.

Ophthalmic products, marketed by Allergan Pharmaceuticals, Inc., is an important new field for SmithKline. Our position is based on a broad range of specialty products with widespread professional and consumer acceptance. Several new products introduced in the United States in 1980

Photo opposite: In England, a scientist at the Company's new Research Institute facility at The Frythe runs tests on histamine-related compounds under development.

Photo above: In France, modern pharmaceutical facilities permit efficient manufacturing of 'Tagamet'.

are expected to enhance future growth. Allergan's initial penetration of European markets has been successful, and we are allocating additional resources to fortify international marketing capability. In addition, we are intensifying research efforts to create new products for serious eye diseases.

Our clinical laboratories are a major supplier of diagnostic test information to the U.S. medical community. We are rapidly expanding these services in key markets to make this business an important factor among our diversified operations.

Technological innovation is also crucial to the progress of our industrial ultrasonic business. We see additional opportunity from entry into new geographic markets and from new applications for our equipment arising from environmental needs.

We will also seek Corporate growth through external expansion on a selective basis. Our objective is to enter attractive new business areas or to enhance our current lines with new products and more advanced technology. Acquisition candidates will be evaluated by rigorous standards. Each must improve the Company's long-term growth potential, be based in health care or high technology, and be a well-managed competitor in

its field. We shall also seek in-licensing opportunities to bring complementary products to our existing lines.

SmithKline's ultrasonic plastics assembly and vibration welding equipment is used for more than 25 steps in the auto assembly process.

Corporate Commitments

The opportunities for growth are substantial. Progress will depend on our ability to introduce important new products on a worldwide basis. But the Company does not exist in isolation. We are, therefore, deeply concerned about the environment in which we conduct our business.

Recognizing that the U.S. economy is important to our future, we believe in contributing to the well-being of the nation. In 1978, we initiated a Corporate advertising campaign, *Forum for a Healthier American Society,* in which distinguished thinkers offer their recommendations for social and economic change. Thousands of people have responded favorably to this campaign by writing to the Company and to their Congressional representatives to express their views on national policy.

As part of our commitment to the City of Philadelphia, SmithKline has played a leading role in the Franklin Town Project. At completion, this 50-acre tract of land will be among the largest privately financed center city developments in the United States.

Internationally, we have given support to a range of medical and scientific programs. We have created foundations in Italy, Germany and the United Kingdom for the advancement of knowledge in medical and related sciences. Grants are provided for selected research projects, scientific symposia and publication of scientific proceedings.

Board Actions

In response to the increasing complexity of our business operations, we enlarged the Board of Directors this year. Three new members were elected: Gavin S. Herbert, President of Allergan Pharmaceuticals, Inc.; Francis P. Lucier, Chairman and Chief Executive Officer of The Black and Decker Manufacturing Company, and Ralph A. Pfeiffer, Jr., Chairman and Chief Executive Officer of the IBM World Trade Americas/Far East Corporation and a Senior Vice President of International Business Machines Corporation.

At the close of 1980, Dr. Lewis E. Harris retired from our Board. Dr. Harris was a Board member for ten years, serving as Chairman from 1972 until 1976. During his 41 years of service to the Company, Dr. Harris played a key role in the development of SmithKline, and his presence will be missed.

In recognition of 1980's performance, and with confidence in the future, the Board of Directors raised the quarterly dividend twice during the year. The dividend was increased from 36 cents to 41½ cents in the first quarter, and from 41½ cents to 48 cents in the fourth quarter. This represents a 31 percent increase over dividends per share paid in 1979.

In Summary

SmithKline had a very good year in 1980. The Company is well positioned to advance its business operations during 1981. We are confident of our ability to sustain Corporate progress throughout the decade.

Robert F. Dee

Robert F. Dee
Chairman of the Board and Chief Executive Officer

Henry Wendt

Henry Wendt
President and Chief Operating Officer

The research and administration tower is one of the major facilities at the California headquarters of Allergan Pharmaceuticals, Inc.


Cumulative Percent Recurrence
of Duodenal Ulcer in U.S. Clinical Trials
Percent of Patients with Recurrence
70
60
50
40
30
20
10
PATIENTS TAKING
PLACEBO
PATIENTS TAKING
TAGAMET
Duration
up to 3
months
up to 6
months
up to 9
months
up to 1
year

Health Care Businesses

The use of 'Dyazide' helps millions of people to control hypertension, a condition associated with serious cardiovascular diseases.

Ethical pharmaceutical sales rose significantly in 1980. Volume reached $1.065 billion, a 24 percent increase over the previous year. Our strong worldwide balance was maintained, with U.S. sales increasing 23 percent to $513 million and international sales up 24 percent to $552 million.

Sales of our gastrointestinal products group—comprised primarily of 'Tagamet'—grew 35 percent to $649 million.

'Tagamet' is still a young product in pharmaceutical industry terms, but its therapeutic contribution has been substantial. Growing physician acceptance and increased patient usage—more than 12 million people have used the drug in the United States alone—have made 'Tagamet' the standard treatment for ulcer disease.

'Tagamet' is also the first drug to reduce significantly the rate of recurrence of ulcer disease. Data from our clinical trials demonstrate that the drug reduces the recurrence rate in target populations from over 50 percent to less than 15 percent when used on a long-term basis. In April 1980, we received approval from the U.S. Food and Drug Administration for use of a reduced dosage of 'Tagamet' to prevent the recurrence of duodenal ulcer in patients for whom surgical intervention might otherwise be necessary. 'Tagamet' is approved for long-term use in almost every country, and its utilization in the prevention of recurrence of ulcers has increased worldwide.

'Tagamet' has been used to treat gastric ulcer in most countries. In 1980, we completed our U.S. studies for this indication and submitted an application to the FDA for marketing approval.

We also completed all the necessary preclinical and clinical trials required by the Japanese regulatory authorities. We have submitted an application in Japan for the use of 'Tagamet' in treating gastric ulcer, duodenal ulcer, upper gastrointestinal bleeding and Zollinger-Ellison syndrome, a hypersecretory condition.

In addition to the benefits of 'Tagamet' to patient well-being, we have substantiated economic savings resulting from its use. In cooperative studies by research organizations in the United States, the Netherlands and the United Kingdom, 'Tagamet' has been shown to have caused a sharp decline in the number of surgical procedures related to ulcer disease. Millions of dollars in health care costs are thereby saved each year due to 'Tagamet'.

In the cardiovascular field, SmithKline has concentrated on hypertension.

Sales of our cardiovascular products group

Data from clinical trials demonstrate that a low dose regimen of 'Tagamet' is effective in reducing the recurrence of duodenal ulcers, thereby allowing many patients to avoid potential complications and surgery.

increased 16 percent in 1980 to $162 million. This increase was largely attributable to 'Dyazide', our potassium-sparing antihypertensive diuretic. 'Dyazide' maintained its number one position in the United States as first line diuretic therapy, with growth exceeding the overall rate for this therapeutic category. During 1980, an important U.S. court decision prohibited a manufacturer from replicating the unique appearance of the 'Dyazide' capsule. This decision and others involving additional companies should discourage unfair copying of our product. Internationally, sales of diuretic products also grew significantly.

Early in 1980, SmithKline withdrew from the market its new antihypertensive drug, 'Selacryn', due to rare but serious adverse effects. Subsequently, the Company cooperated with the FDA in examining and assessing medical records of patients who had used the drug.

In antibiotics, 'Ancef'—our injectable cephalosporin product—continued its success in the U.S. hospital market in the face of increased competition. The product has received FDA clearance for prophylactic use in patients during surgery. Internationally, antibiotic sales were disappointing due to several adverse factors. As a result, worldwide antibiotic sales were level with 1979, at $60 million.

Steady use of our mental health products continued, with volume rising slightly to $67 million. Sales of our cough/cold products increased modestly in spite of intense competition.

Human biological products had their most successful sales year ever in 1980. We were the exclusive supplier of polio vaccine required by UNICEF for the World Health Organization's expanded program of immunization. We continued to supply vaccines for the prevention of measles and meningitis to developing nations, where such diseases have a devastating effect.

In summary, our operations in the United States and internationally continue to show significant progress, and we are well positioned to sustain growth in the future.

Proprietary products, marketed through Menley & James Laboratories, experienced a strong increase in sales over the previous year.

Volume rose 33 percent to $174 million. U.S. sales were up 42 percent to $121 million, while international volume grew 15 percent.

The largest contributor to 1980 volume was 'Contac'. In spite of intense competition, 'Contac' remains the world's top-selling cold medication. An improved formulation of the product was introduced in the United States during the year with strong marketing support. 'Sine-Off' products—number two in the sinus remedy market—were also subjected to heavy competition, but retained a substantial market share.

With the introduction of 'Dietac', we entered the fast-growing area of weight reduction, nutrition and fitness products. 'Dietac'—marketed in liquid, tablet and capsule dosage forms—is an aid to weight loss in conjunction with proper nutritional habits. Our entry was highly successful.

International sales of our proprietary line were most favorable in Japan, France and Mexico. In Japan, our largest international market, 'Contac' sales and market share rose during the year. 'Synthol', our French antiseptic product, showed renewed market acceptance and will be further supported by consumer advertising in 1981.

In West Germany, both 'Contac' and 'Rabro', an antacid, increased volume. Mexican sales also increased, as did exports from our United Kingdom facilities to the Mideast and Africa.

Overall, our proprietary line made strong progress in 1980, with notable gains in the United States and selected international markets.

The use of 'Dietac'—along with proper nutrition and exercise—is helping many Americans achieve weight control.

Animal health products performed extremely well in 1980, despite the depressed livestock market in the United States resulting from persistently high interest rates. Total volume reached $136 million, an increase of 17 percent. Sales growth in the United States was 12 percent, with international sales up 22 percent.

Our animal health line consists of ethical veterinary drugs developed by Norden Laboratories, and feed additive, anthelmintic and biological products for livestock marketed in the United States and internationally.

Our products are utilized in more than 40 countries, a geographic distribution that enabled us to reduce the impact of 1980's highly volatile economic trends. During the year, we made strong advances in the United Kingdom, the Netherlands, France, South Africa and Brazil, offsetting weak market conditions in Ireland and Argentina.

Two highly successful products—'Valbazen' (albendazole) and 'Stafac' (virginiamycin)—led our performance in feed additives and anthelmintics.

In its third full year of marketing, 'Valbazen', a broad-spectrum wormer for sheep and cattle, achieved the leading share of the market in its category. In countries such as the United Kingdom, Australia and New Zealand, where sheep farming is central to the economy, 'Valbazen' is well accepted. The product has also advanced rapidly in cattle-producing nations.

In the United States, the Food and Drug Administration granted emergency approval in

1980 to market 'Valbazen' in several states where liver fluke infections had become epidemic. We continued our animal lifetime studies of 'Valbazen' in order to achieve full regulatory approval in the United States.

Our antibiotic feed additive, 'Stafac', maintained a leading position in Continental Europe. The product also performed well in Latin America, the United Kingdom and Australia. In the United States, sales of 'Stafac' were up markedly, despite poor poultry and swine market conditions.

Ethical veterinary products made significant contributions to our product line balance in 1980. In the face of difficult market conditions, Norden made strong sales advances over the previous year, improving its position of U.S. leadership in ethical veterinary products. Sales of 'Filaribits', a canine heartworm preventive, and 'Vanguard' canine vaccines rose sharply. Feline vaccine sales also advanced appreciably.

Our animal health business has a consistent record of innovation. More than 40 percent of 1980 sales resulted from products introduced since 1975. Such R&D productivity, combined with the potential of increased penetration of high growth markets in the pastoral countries of the Southern Hemisphere, is expected to bring continued strong performance.

Anthelmintic products such as 'Valbazen' are used to improve the health of cattle throughout the world.

Eye Care: A New Dimension

There are few areas of health maintenance more essential to people than eye care. Diseases of the eye and deteriorating vision are common, particularly in the population over age 45. Eye care products that enable physicians to diagnose, prevent or treat eye disorders have become a large segment of the health care field.

Allergan Pharmaceuticals, Inc., headquartered in Irvine, California, is one of the world's leading eye care firms. The company has subsidiaries in major markets internationally and exports widely. It has manufacturing facilities in the United States, Puerto Rico, Canada, Brazil, Italy and Ireland. Allergan employs approximately 1,900 people. SmithKline's mergers with Allergan and Humphrey Instruments Incorporated—also based in California—have allowed us to enter the eye care market with specialized products.

Among the major disorders of the eye are refractive error, inflammatory disease, cataracts and glaucoma. Refractive error is caused by an abnormality in the shape of the eye. Over half the U.S. population, and nearly everyone over age 50, has some form of refractive error.

The 'Humphrey Vision Analyzer' is an improved refraction instrument that applies computer technology to the diagnosis of refractive error. The system provides the lens adjustments during an eye examination while keeping a computerized record of patient responses. To rapidly and accurately determine the strength of a patient's existing spectacles or contact lenses, the company markets the automatic 'Humphrey Lens Analyzer'. The 'Humphrey Auto-Keratometer' is another advanced instrument used in the fitting of contact lenses to objectively measure the shape of the cornea.

While the popularity of contact lenses is primarily due to their cosmetic value, there are additional advantages. The field of vision they provide is wider than that of spectacles, and they help overcome the vision changes that often come with age.

Contact lenses require daily maintenance with solutions and accessories to protect the eye from harmful protein or dirt buildup on the lens. Allergan has a complete line of such products for both hard and soft lenses. The company is one of the world's leading developers of products recommended by professionals for contact lens use.

Inflammatory conditions of the eye are another common problem. Allergan has anti-infectives and corticosteroids to treat these inflammations and has achieved the leading position in the ethical ophthalmic pharmaceutical market. To combat the problems of dry or mildly irritated eyes, Allergan also markets proprietary pharmaceuticals such as 'Liquifilm' Tears and 'Prefrin Liquifilm' eye drops.

Cataracts and glaucoma are two major eye diseases—most commonly found in the aging—that often result in blindness. Cataracts are characterized by a clouding of the lens of the eye. Glaucoma, a disease of unknown origin, is marked by increased intraocular pressure. It is the third largest destroyer of vision, affecting millions of people. Allergan has a continuing interest in combating these diseases.

SmithKline's entry into the eye care field has made a strong contribution to our diversified business operations. We believe that the specialized segments in which we participate have promising potential for growth worldwide.

Ophthalmic products, marketed by Allergan Pharmaceuticals, Inc., had an excellent year in 1980. Total sales moved up 36 percent to $110 million, with a 31 percent increase in the United States, and a 48 percent rise internationally.

In the contact lens accessory line, Allergan's leading performer was 'Soflens' Enzymatic Contact Lens Cleaner, used to remove protein deposits. The 'Soflens' tablet offers unique advantages to the lens wearer, and consumer acceptance has made it the market leader.

A new cold disinfecting product, 'Allergan' Cleaning and Disinfecting Solution, received U.S. regulatory approval in 1980. An October introduction of the product showed promising potential. FDA approval was also received during the year for 'Allergan Hydrocare' Preserved Saline Solution, another product for lens disinfection. With these new entries, Allergan now has a full line of hard and soft lens accessories.

Allergan's prescription pharmaceutical line is comprised of anti-infective, anti-glaucoma and anti-inflammatory products. 'Propine', a new anti-glaucoma drug, was approved by the FDA in 1980. Following its introduction in June, the product achieved excellent sales. Proprietary eye care medications also performed well.

Internationally, Allergan has established a strong presence in the major markets for eye care products, including Canada, Brazil, Germany, Japan and Australia. The acquisition this year of Tubilux Farma, S.p.A., an ophthalmic products company in Italy, improved our position there.

Through its Herbert Laboratories division, Allergan markets a line of dermatological products. Sales of these products increased sharply, outpacing overall market growth.

Eye care ranks high among world health care priorities. Almost all individuals need routine vision care, and nearly 90 percent of the population of the industrialized world over the age of 45 requires corrected vision.

Clinical Laboratories continued its growth in 1980. Sales increased by 27 percent to $70 million, with improved profitability over the previous year.

The independent clinical laboratory business is one of the largest segments of the U.S. health care industry. It continually expands as diagnostic and treatment techniques become more sophisticated and widespread among the medical community. Success for any laboratory competitor results from a combination of geographic coverage, a broad range of testing capabilities and fast delivery of accurate information.

SmithKline's network of five regional laboratories and 13 satellite facilities has performed excellently by each of these criteria. As a result, we have achieved a highly competitive position among industry leaders. We expect our presence in this field to increase in the future.

Instrument Businesses

Medical diagnostics encompasses several product lines, including ultrasonic imaging equipment, vision analysis instruments, equipment for the testing of blood samples, and chemistry test systems and reagent products. While these products are marketed to a variety of different health care segments, each requires the continual incorporation of new technology to maintain market leadership.

In 1980, volume from these combined operations increased 16 percent to $68 million.

In the field of ultrasonic imaging, we participate in the areas of cardiology and abdominal scanning. Our recent performance in cardiology has been negatively affected by the entry of strong and technologically advanced competitors. As a result, sales of this equipment remained level with the

Through a new computer system installed by SmithKline's Clinical Laboratories, diagnostic test results are automatically transmitted from our laboratory staff (at left) to hospital personnel.

previous year. Through our acquisition of Mediscan, Inc., early in 1980, we entered the abdominal scanning market and introduced a high resolution instrument late in the year.

Nevertheless, results from our medical ultrasonic imaging equipment have been below our expectations. We have sought to realign our market position in this area.

Volume in the Geometric Data Division advanced substantially, with growth from the 'Hematrak' line of automated blood cell counters. A new use of these counters—to analyze animal blood samples for pharmaceutical and chemical toxicity testing—brought good results. This product line continued to gain share on a worldwide basis, sustaining its clear-cut leadership position in U.S., Japanese and European markets.

Humphrey Instruments Incorporated markets sophisticated vision analysis equipment. Eye care professionals frequently require outside financing to purchase this equipment, and high U.S. interest rates severely limited demand. Humphrey sales, therefore, were below the level of the previous year.

The In Vitro Diagnostics Division posted significant worldwide gains in 1980. U.S. sales were the strongest, accompanied by solid progress in our European and Canadian operations. 'Hemoccult', the product for the detection of fecal occult blood, used as an aid in diagnosing colorectal cancer, increased in volume. Sales of diagnostic reagent products for use in hospitals and clinical laboratories also advanced.


WAPAKONETA

Industrial instruments, primarily ultrasonic products, benefited in 1980 from diversification in technology, customers and markets. As a result, we were able to withstand the pressures of worsening economic conditions. Total sales rose 21 percent to $141 million, reflecting 27 percent U.S. growth and 16 percent internationally.

Nondestructive testing instruments, used to detect and measure structural flaws, remained our largest product line. Strong progress in the North American market resulted from increased need for quality control. For example, auto manufacturers found that reliable testing of parts such as axles could help to avert the huge expense of product recalls. A new gauging instrument to measure thickness of plastics was launched, allowing us to enter the plastics testing market.

Ultrasonic assembly of plastic parts became increasingly vital, as car manufacturers sought to lighten and improve fuel consumption of new models. By increasing the capability of our vibration welding equipment, we were able to offer improved assembly of large auto components. We also made good progress in the Japanese market.

We continually seek new applications for our assembly products. High-speed welding of laminated tubes, for instance, permitted us to provide a 15 to 30 percent cost savings to manufacturers of toothpaste who had previously used expensive aluminum packaging.

Our ultrasonic cleaning business advanced rapidly. The 1980 acquisition of a supplier of plasma equipment for etching and cleaning silicon wafers has given us an entry into the rapidly growing semiconductor production equipment market.

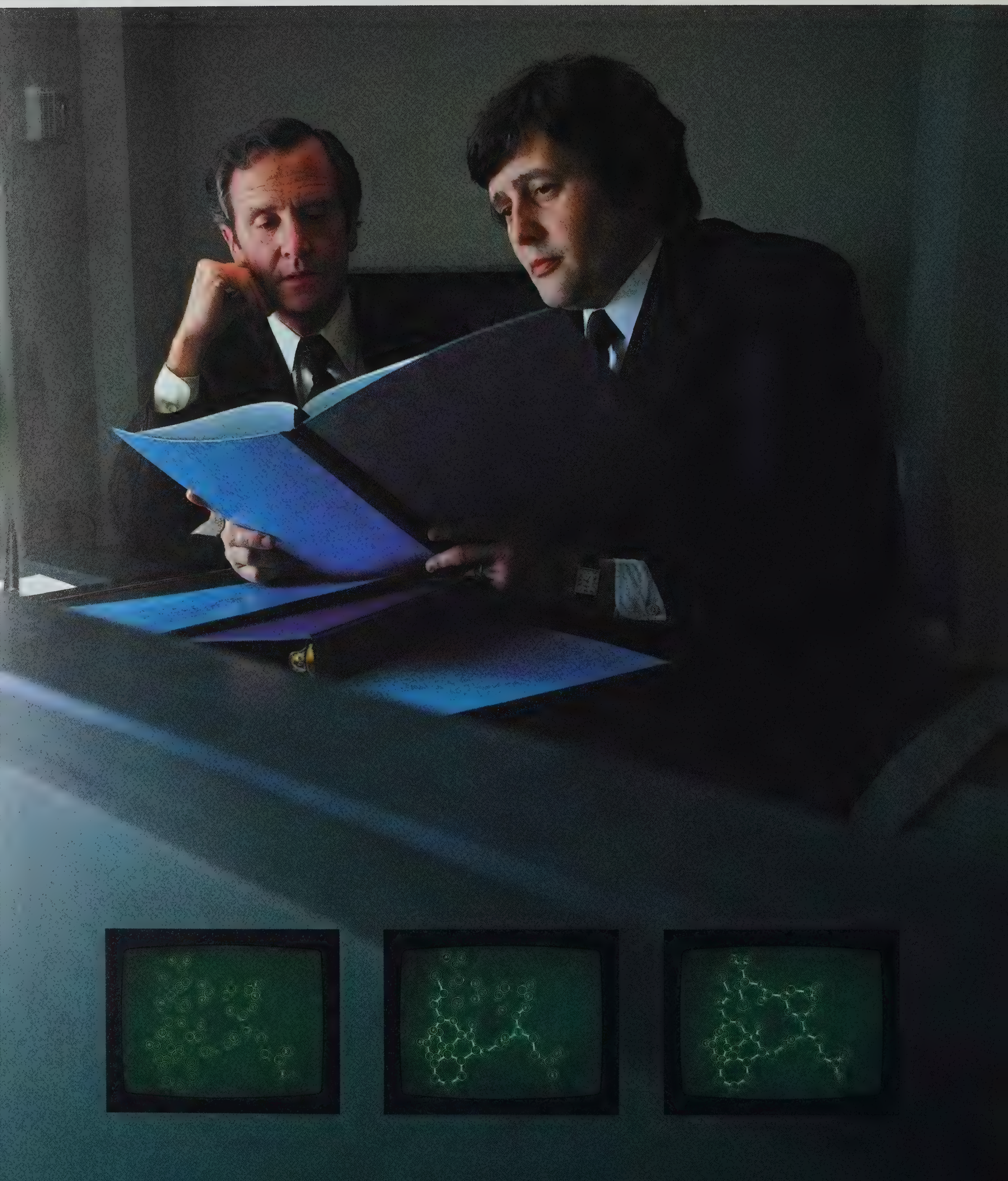
Overall, 1980 brought solid results in the industrial field. Our world presence helped offset the inflationary pressures we experienced in several nations, and this balance will help to maintain stable growth in the future.

Other Businesses

During 1980, SmithKline sold its 'Sea & Ski' sun care and 'Love' cosmetics lines, consistent with the Company's objective of remaining in health care and high technology businesses.

1980 sales of these products were $7 million, compared with $23 million for the full year of 1979.

SmithKline's nondestructive testing equipment was used in the construction of the U.S.S. Carl Vinson, *a nuclear-powered aircraft carrier launched in 1980.*



SmithKline Corporation is at a unique stage in its technological evolution. For the past decade, we have invested considerable resources in research and development. Our efforts have met with success, and as a result the scale of the Corporation has grown significantly. Our increased size now mandates a level of innovation unprecedented in our 150-year history.

In response to this challenge, we have strengthened our commitment to research and development in a variety of ways. Organizationally, our pharmaceutical R&D management has been realigned. Each of our major centers is now led by a single scientist in charge of all basic research, preclinical development and clinical R&D activities.

As the scope of our programs broadened, we increased the number of our laboratory and clinical scientists. Our pharmaceutical R&D personnel worldwide has grown by 45 percent since 1976.

R&D Objectives

In the near-term—the next two to five years—we intend to pursue the therapeutic areas in which we have traditionally made major contributions: gastroenterology, immunology, cardiology and the field of anti-infectives.

Long-term, the disease areas we explore may be more numerous as advances in molecular biology provide new scientific leads. Traditionally, biomedical study focused on the interaction *between* cells. Molecular biology permits research investigation *inside* cells...allowing observation and eventual control of the behavior of individual molecules in the body.

The implications of molecular biology for pharmaceutical research and development are enormous. For example, through molecular genetics it is now feasible to create a therapeutic agent by reproducing the naturally occurring molecules by which normal body processes are regulated. It is also possible to manipulate these indigenous molecules into related drugs that mimic or oppose normal molecular activity. Through molecular immunology, the molecules responsible for immune reactions can be isolated, offering potential for developing drugs far more specific in their therapeutic action than most compounds now available.

The study of histamine will remain a top priority in our efforts. (See special article, page 28.) We are also continuing our study of 'Tagamet' in order to fulfill the drug's therapeutic potential. In the United States, our investigators are compiling data on the role of 'Tagamet' in the prevention of stress ulcer. We are also studying 'Tagamet' in anesthesiology to prevent aspiration pneumonitis—a relatively rare condition—but one which is usually fatal.

In addition to testing the drug's efficacy, our efforts to ensure safety for those receiving 'Tagamet' have continued worldwide. In the United States, initial results from a post-marketing surveillance program were published in *The Journal of the American Medical Association* in 1980, confirming the safety profile

Photo opposite: Dr. Roger Brimblecombe, Pharmaceutical R&D Vice President at Welwyn in the United Kingdom, and Dr. Stanley Crooke, Pharmaceutical R&D Vice President at Philadelphia, discuss exploratory research into cardiorenal disease.

Insets: In the search for a new antihypertensive compound, SmithKline scientists are applying computer technology to explore the configuration of vasopressin, a hormone that induces water resorption in the kidney.

1969

1979

1980

of 'Tagamet'. The second segment of this program will be completed in 1981. In the United Kingdom, preliminary analysis of data from another surveillance program of 10,000 persons receiving 'Tagamet' has produced no unexpected effects. In selected European centers, more than 1,000 patients are being monitored for periods of one to four years to further substantiate the safety of long-term use.

Combating Rheumatoid Arthritis

Central to our study of immunological reactions and their impact on the musculoskeletal system and connective tissue is 'Ridaura' (auranofin). This compound, for treatment of rheumatoid arthritis, is in the final stages of clinical development.

'Ridaura' has the potential to help the millions of patients suffering from this chronic and frequently progressive disease. Results to date demonstrate that the drug goes beyond nonsteroidal anti-inflammatory agents in its ability to alleviate the symptoms of rheumatoid arthritis by reducing stiffness, swelling and pain in the affected joints. Even more important, 'Ridaura' may change what has been for some patients an inevitable progression toward deformity and crippling. When used early in the disease process, the drug may induce a remission and minimize bone and joint deterioration.

Discovered in our Philadelphia laboratories, 'Ridaura' has now been tested in clinical trials at almost 50 U.S. centers and in a number of countries internationally. Approximately 1,000 patients have been studied, several hundred of whom have used the drug for more than one year.

The data emerging from these trials, much of which will be presented at scientific forums in 1981, show a high degree of efficacy. The drug has produced improvement according to the criteria of the American Rheumatism Association, as well as by radiological and chemical tests that measure reduction in disease activity.

We are now preparing applications for regulatory approval of the drug in the United States and other major countries, to be submitted in the months ahead.

Anti-Infective Projects

In infectious disease, SmithKline now has two parenteral cephalosporin antibiotics in clinical development—cefonicid and ceftizoxime. Both have been shown to have a broad spectrum of activity and to be effective against certain resistant strains of bacteria.

Ceftizoxime, in a joint development effort with Fujisawa Pharmaceutical Company, Ltd., of Japan, has already shown excellent clinical activity in more than 1,000 patients in that country. U.S. studies to substantiate these results are proceeding, and we expect to submit a New Drug Application during 1981.

Initial results with cefonicid indicate that it may be effective with only once-daily dosing. That characteristic combined with minimal adverse effects could make it very useful therapy. Submission for regulatory approval is expected by 1982.

As we continue our study of infectious disease, we will also focus on the search for new antifungal and antimicrobial agents.

Continued on page 30

X-rays of a rheumatoid arthritis patient's hand show serious deterioration of the joints as the disease progressed during an eleven-year period.

Focus on Histamine

The study of histamine at our British Research Institute has already contributed to our understanding of various physiological processes in the body, and we believe there is potential for further advances in numerous disease areas.

Knowledge of histamine's biological actions in the human body was first gathered in the scientific community almost a century ago. With the understanding that histamine is released during allergic reactions, classical antihistamines were developed against allergy in the 1930's. Scientific interest in histamine intensified in the 1960's when SmithKline scientists first demonstrated the existence of two kinds of histamine receptor sites—the first (H_1 receptors) involving histamine in, for example, allergic reactions; and a second (H_2 receptors) involving histamine in other processes, including gastric acid secretion. 'Tagamet' is the first product to result from our search for H_2-receptor antagonist drugs.

During the 1970's, our research evolved into a much broader and deeper investigation of histamine's biological actions. We are using 'Tagamet', its precursors and a family of histamine-related compounds as biological probes in this work. In addition to our study of H_2-antagonist compounds in the gastrointestinal system, we are now investigating the physiological and pathological role of histamine in the cardiovascular, central nervous and immunological systems. These research areas correspond to the fields SmithKline has traditionally explored, allowing us to blend histamine knowledge with knowledge of disease processes in a comprehensive worldwide R&D effort.

A primary objective within the gastrointestinal area is to expand the range of 'Tagamet'-like compounds into an H_2 arsenal against disease. These compounds would enable the physician to adjust treatment to individual patient needs. One compound is oxmetidine, an H_2 antagonist different in structure and metabolism from 'Tagamet'. Because oxmetidine is excreted mainly via the bile, it has potential for use as an antisecretory agent in patients with renal dysfunction. Clinical trials to determine its efficacy in man are in progress.

We are also seeking a longer-acting H_2 antagonist compound, and another one of our compounds appears to have this quality. Early clinical work is under way to establish dosage levels, and publication of data on the drug's pharmacological profile is expected during 1981.

A second objective within gastroenterology is to clarify further the process of gastric acid secretion, in order to improve ulcer treatment or to counteract other digestive diseases where therapy is now limited. 'Tagamet'—and other H_2 antagonists we are investigating—blocks gastric secretion stimulated by histamine. But other substances, gastrin and acetylcholine, are also involved in the physiological control of the secretion. This means it may be possible to interfere with the cycle at other points.

Within the cardiovascular system, three reactions have been observed that point to the significance of histamine's role. It is known that histamine can produce marked vascular effects, including a fall in blood pressure and an increased heart rate. Similarly, histamine can produce an increase in the force of contractility of the heart. Acute inflammation—especially in the skin—is also caused by histamine's ability to increase the permeability of small blood vessels.

The actions of histamine in producing these effects involve both H_1 and H_2 receptor sites.

SmithKline scientists are exploring the role of histamine in the gastrointestinal, cardiovascular, immunological and central nervous systems.

We have already demonstrated that while neither an H_1 antagonist nor an H_2 antagonist alone can completely counteract these actions, a combination of the two antagonists is more effective. This observation is an important step toward the creation of a therapeutic compound which could prevent or reverse undesirable histamine-provoked reactions. The potential of drugs in this area might be in the treatment of inflammatory skin conditions, and in the prevention or treatment of certain cardiovascular conditions.

In the central nervous system, the role of histamine is still not understood completely. We know that histamine H_1 and H_2 receptors are present in the brain, and that histamine appears to act as a neurotransmitter. We are experimenting in this area to assess the possible therapeutic effects of intervening in the process of histamine neurotransmission.

Finally, and perhaps most intriguing, is the knowledge we are gaining of histamine's role in the immune system. The result of faults in the immune system forms a catalog of serious illness: tumors and parasitic infections, as well as autoimmune diseases such as rheumatoid arthritis.

Histamine appears to serve an immunoregulatory function, providing an impetus toward balance whether the system is overactive or underactive. The need for therapeutic advances in this area is extremely important, and we have therefore made it a major priority.

Overall, our exploration of the pharmacological, physiological and pathological role of histamine has made rapid progress in recent years. We believe that while the discovery of 'Tagamet' was a remarkable achievement in the history of pharmaceuticals, it represents only a part of the potential benefits to come from histamine-related research.

Research scientists at our Applebrook Research Center, Pennsylvania, are exploring new compounds to promote healthy growth of poultry and livestock.

Continued from page 27

Approaches to Cardiovascular Therapy

Cardiovascular therapy is a field in which there is a pressing need for new therapeutic agents. One approach we are using is to focus on aspects of kidney function. It has been observed, for example, that resistance to the normal flow of blood in the kidney may produce a variety of conditions including hypertension. This resistance has also been shown to be associated with such problems as congestive heart failure and renal dysfunction. To intervene therapeutically, we have sought a potent agent to dilate the blood vessels in the kidney. One compound has been isolated, and we are now testing both oral and injectable forms to assess clinical efficacy.

We are also investigating the role of vasopressin, a hormone that induces water resorption in the kidney. In patients with poor cardiorenal function, vasopressin may cause too much water to be reabsorbed from the kidney. Our objective is to find a molecule that will inhibit the effect of vasopressin, thereby producing a potent and safe diuretic for conditions such as congestive heart failure and hypertension.

Advances with DNA

Our research facility in Rixensart, Belgium, was one of the first organizations to undertake applied DNA technology several years ago. Recently, a step forward in the diagnosis of enteritis of bacterial origin was achieved by our researchers, who developed the first in vitro test for detecting the presence of "stable toxin" produced by some bacteria. The World Health Organization is now evaluating this test for use in developing nations where enteritis is a major health problem. Recombinant DNA technology is also being used at our facility in Upper Merion, Pennsylvania, for the development of new antibiotics.

R&D Diversity

SmithKline's commitment to innovation is evident in R&D programs at each of our diversified businesses. Allergan is conducting a multifaceted program to develop new therapeutic agents for eye disease and possible new delivery systems for currently available eye medication.

In glaucoma, beta blocking agents are a new and effective therapy. We are now testing several beta blocking compounds, one of which is in clinical trials. In addition, we are exploring other compounds with a different mechanism of action in order to prevent or reduce the side effects found with current therapy. One of these compounds has been shown effective in preclinical studies and has been introduced into patients for evaluation.

In addition, it is known that histamine affects the vasculature of the eye, and may play a role in various ophthalmic conditions. Joint efforts have been initiated, combining Allergan's expertise in the physiology and pathology of the eye with SmithKline's knowledge of histamine antagonism, to apply histamine technology to prevention of eye disease.

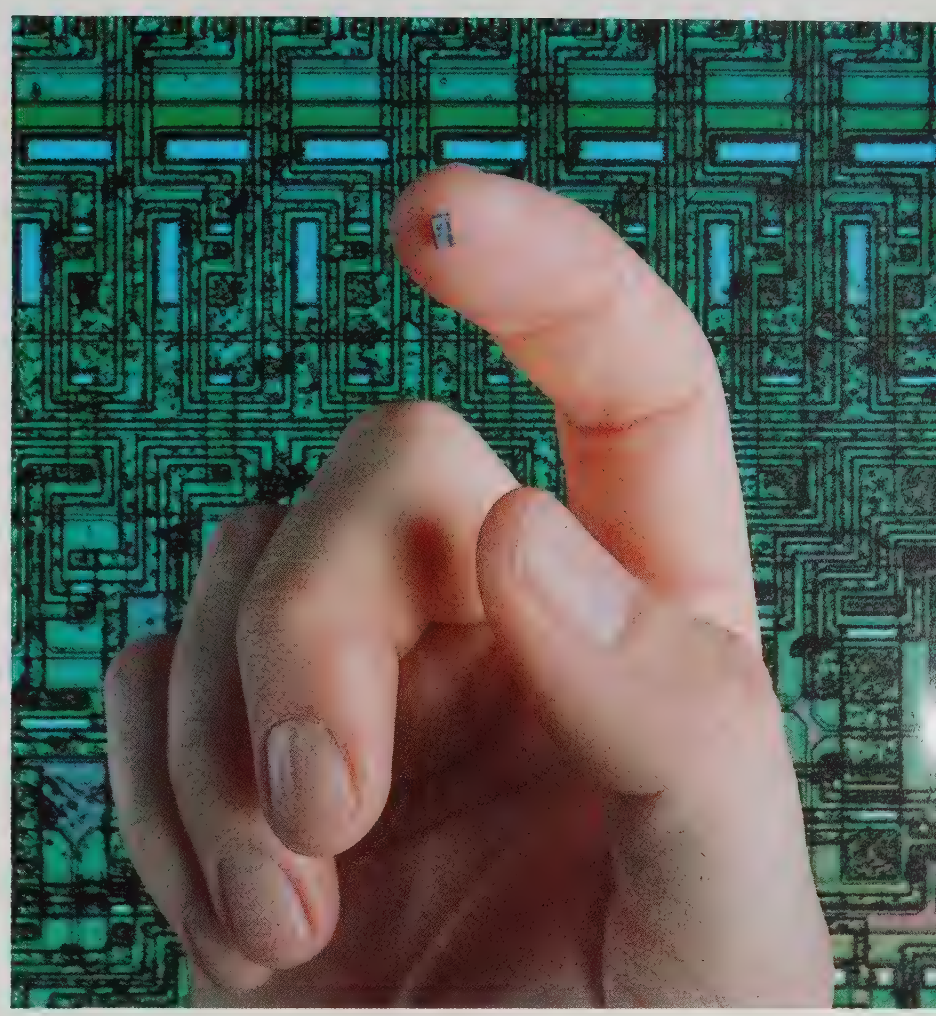
In animal health, scientists at Norden Laboratories are currently engaged in more than 25 research projects. One of the most urgent is a vaccine—now in the final stages of development—for prevention of canine parvovirus infection, a disease that recently rose to near-epidemic proportions in the United States and many other countries. A high priority has also been given to expanding Norden's line of swine and cattle biologicals. Early in 1981, Norden will introduce a swine Bordetella vaccine for immunization against atrophic rhinitis in swine. In addition, we are working on the development of a product effective against a wide range of Pasteurella organisms for the prevention of serious respiratory infections in cattle and swine.

At our Applebrook Research Center in Pennsylvania, we are exploring new feed efficiency compounds that could potentially replace the antibiotics now commonly used in animals. We are also seeking additional antiparasitic agents to combat infection in food-producing animals. At our Belgian facilities, studies of biologicals to prevent livestock disease are progressing.

In industrial instruments, our technology in vibration welding is evolving rapidly. A new generation of energy-efficient degreasers (cleaning machines using chemical solvents) will be introduced in 1981.

Our medical diagnostics research is directed toward new biochemical tests to assist the physician in diagnosing disease and toward technical improvements in our ultrasonic imaging equipment.

Programs in proprietary medicine are focusing on improved formulations of our products in the cough/cold and weight loss areas, as well as in other fields of health maintenance for the consumer.



This tiny chip could be the memory or logic component for a digital watch or a mini-calculator. The pattern etched on its surface using our gas plasma etching system is approximately three microns wide (a single strand of human hair measures approximately 70 microns). SmithKline scientists are exploring new applications for gas plasma technology. The background of the photo is a portion of the chip magnified 175 times.

Research and development at SmithKline is at the forefront of technology in many health care and industrial areas. We expect to fulfill our commitment to make major product contributions in the years ahead.

Business Segments

Business segments and geographic areas are determined in accordance with the guidelines in Financial Accounting Standards Board Statement 14. These do not conform entirely with internal management structure.

The Company has therefore divided its operations into the following segments.

Health Care

This segment includes products regulated under the food and drug laws of the United States and other countries, and distributed principally through the food and drug trade. Human health products consist of ethical pharmaceutical products which are generally promoted to the medical profession and proprietary drug products which are advertised to the consumer and do not require a prescription. Animal health products consist primarily of animal ethical vaccines and pharmaceutical products and feed additives. Ophthalmic and optical products consist primarily of products used with contact lenses and products for the treatment of ocular inflammatory and allergic conditions. Clinical Laboratories consist of a chain of laboratories providing services in the United States and Canada.

Ultrasonic and Electronic Instruments

Products included in this segment originate principally from ultrasonic and other electronic research and development activities. Industrial instruments include primarily ultrasonic equipment and specialized systems utilizing ultrasonic energy in three major applications: nondestructive testing, plastics assembly and cleaning. Medical instruments include abdominal and cardiac ultrasonic diagnostic equipment, an automated differential blood cell counter, "in-office" diagnostic equipment and reagent products, and a line of nonincursive diagnostic eye care instruments and optical measurement instruments.

Other

This segment includes the fragrance and sun care products businesses which were sold during 1980, and the food products business which was sold in 1978.

Operations by Business Segments

Financial information about the Company's business segments for each of the last three years ended December 31, in thousands, is as follows:

	1980	1979*	1978*
Sales to Unaffiliated Customers:			
Health care:			
Ethical pharmaceutical products	**$1,065,477**	$ 861,901	$ 651,251
Proprietary drug products	**174,062**	130,697	138,207
Animal health products	**135,895**	116,113	84,955
Ophthalmic and optical products	**110,031**	80,871	60,365
Clinical laboratories	**70,184**	55,367	43,983
Total health care	**1,555,649**	1,244,949	978,761
Ultrasonic and electronic instruments:			
Industrial instruments	**141,075**	116,768	96,264
Medical instruments	**68,248**	58,969	52,528
Total instruments	**209,323**	175,737	148,792
Other	**6,966**	23,484	53,252
Consolidated sales	**$1,771,938**	$1,444,170	$1,180,805
Operating Profit:			
Health care	**$ 468,032**	$ 354,363	$ 273,647
Ultrasonic and electronic instruments	**3,778**	13,901	14,390
Other	**(6,739)**	(983)	1,546
Operating profit	**465,071**	367,281	289,583
Interest expense	**(25,198)**	(19,066)	(18,673)
Interest income	**29,584**	23,593	15,702
Other corporate expenses, net	**(21,763)**	(13,397)	(11,820)
Earnings before income taxes	**$ 447,694**	$ 358,411	$ 274,792
Identifiable Assets at December 31:			
Health care	**$1,057,687**	$ 843,118	$ 656,469
Ultrasonic and electronic instruments	**145,462**	133,312	107,293
Corporate and other	**351,262**	311,178	249,629
Consolidated assets	**$1,554,411**	$1,287,608	$1,013,391
Capital Expenditures:			
Health care	**$ 113,051**	$ 94,743	$ 77,114
Ultrasonic and electronic instruments	**9,103**	6,082	4,828
Corporate and other	**10,652**	145	253
Total capital expenditures	**$ 132,806**	$ 100,970	$ 82,195
Depreciation:			
Health care	**$ 34,136**	$ 24,896	$ 17,992
Ultrasonic and electronic instruments	**4,845**	3,850	3,823
Corporate and other	**437**	62	439
Total depreciation	**$ 39,418**	$ 28,808	$ 22,254

Operating profit excludes interest expense, interest income and other corporate items and income taxes.

Identifiable assets for the industry segments are those assets that are used in the Company's operations in each segment. Corporate assets consist primarily of cash, time deposits and fixed assets of a corporate nature.

*Restated to include 1980 acquisitions accounted for as poolings of interests and to reclassify clinical laboratories to health care.

Operations by Geographic Area

Financial information about the Company's operations in different geographic areas for each of the last three years ended December 31, in thousands, is as follows:

	1980	1979*	1978*
Sales to Unaffiliated Customers:			
United States	$ 957,827	$ 788,299	$ 692,233
Europe	548,388	446,027	330,329
Other geographic areas	265,723	209,844	158,243
Consolidated sales	$1,771,938	$1,444,170	$1,180,805
Operating Profit:			
United States	$ 234,995	$ 169,115	$ 149,953
Europe	198,486	171,117	118,572
Other geographic areas	32,853	27,199	23,059
Profit eliminations, etc.	(1,263)	(150)	(2,001)
Operating profit	465,071	367,281	289,583
Interest expense	(25,198)	(19,066)	(18,673)
Interest income	29,584	23,593	15,702
Other corporate expenses, net	(21,763)	(13,397)	(11,820)
Earnings before income taxes	$ 447,694	$ 358,411	$ 274,792
Identifiable Assets at December 31:			
United States	$ 657,060	$ 519,459	$ 388,739
Europe	407,281	348,795	290,322
Other geographic areas	161,267	138,080	111,338
Corporate	351,262	296,088	234,296
Adjustments and eliminations	(22,459)	(14,814)	(11,304)
Consolidated assets	$1,554,411	$1,287,608	$1,013,391

Other geographic areas include, primarily, operations located in Canada, Latin America and the Far East. Inter-area sales, which are made at terms that allow for a reasonable profit to the seller, are not material.

Operating profits include net foreign exchange gains of $32,000 in 1980 and $2,967,000 in 1978 and net foreign exchange losses of $1,155,000 in 1979. Interest expense, interest income and other corporate items and income taxes are excluded from operating profits.

Identifiable assets are those assets that are used by the operations in each geographic location. Corporate assets consist primarily of cash, time deposits and fixed assets of a corporate nature.

*Restated.

Consolidated Statements of Earnings

Years ended December 31,

	1980	1979*	1978*
Revenue:			
Sales	**$1,771,938,000**	$1,444,170,000	$1,180,805,000
Interest income	**29,584,000**	23,593,000	15,702,000
Royalties and other income	**5,702,000**	5,538,000	9,259,000
	1,807,224,000	1,473,301,000	1,205,766,000
Costs and expenses:			
Cost of sales	**597,062,000**	478,690,000	413,841,000
Marketing, administrative and general	**586,445,000**	502,522,000	411,078,000
Research and development	**135,832,000**	103,194,000	81,859,000
Interest expense	**25,198,000**	19,066,000	18,673,000
Minority interests	**2,761,000**	2,676,000	2,211,000
Other expenses	**12,232,000**	8,742,000	3,312,000
	1,359,530,000	1,114,890,000	930,974,000
Earnings before income taxes	**447,694,000**	358,411,000	274,792,000
Provision for income taxes	**139,700,000**	112,400,000	99,900,000
Net earnings	**$ 307,994,000**	$ 246,011,000	$ 174,892,000
Net earnings per share	**$ 4.65**	$ 3.76	$ 2.69
Average number of shares outstanding	**66,193,000**	65,492,000	65,070,000
Dividends per share	**$ 1.725**	$ 1.32	$ .78

*Restated.

See accompanying notes to consolidated financial statements.

SmithKline Corporation and Subsidiaries

Consolidated Balance Sheets

December 31,

Assets	1980	1979*
Current assets:		
Cash, including time deposits of $293,716,000 and $232,132,000	$ 307,244,000	$ 247,877,000
Notes and accounts receivable:		
Notes receivable	50,515,000	51,207,000
Accounts receivable	298,729,000	249,658,000
	349,244,000	300,865,000
Less allowances for doubtful accounts, discounts and returns	12,436,000	12,653,000
	336,808,000	288,212,000
Inventories:		
Finished products	98,125,000	77,651,000
Work in process	101,581,000	94,183,000
Raw materials and supplies	119,826,000	108,410,000
	319,532,000	280,244,000
Prepaid expenses	25,138,000	22,204,000
Total current assets	988,722,000	838,537,000
Time deposits—long-term	45,400,000	53,966,000
Investments and other assets	22,421,000	13,813,000
Property, plant and equipment:		
Land	18,175,000	17,114,000
Buildings	278,529,000	203,107,000
Machinery and equipment	312,369,000	255,644,000
	609,073,000	475,865,000
Less accumulated depreciation	187,285,000	158,117,000
	421,788,000	317,748,000
Deferred income taxes	12,583,000	14,627,000
Goodwill and other intangibles	63,497,000	48,917,000
Total assets	$1,554,411,000	$1,287,608,000

*Restated.
See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	1980	1979*
Current liabilities:		
Notes payable	$ 54,958,000	$ 63,575,000
Accounts payable	87,609,000	103,651,000
Accrued compensation	33,599,000	31,339,000
Other accrued expenses	77,314,000	59,810,000
Income taxes	142,643,000	109,665,000
Total current liabilities	396,123,000	368,040,000
Long-term debt	121,985,000	122,452,000
Obligation under capital lease	14,283,000	—
Other liabilities	31,194,000	29,194,000
Minority interests	3,606,000	3,371,000
Total liabilities	567,191,000	523,057,000
Shareholders' equity:		
Common stock $.25 par value: Authorized 100,000,000 shares; issued at par value: 1980—66,465,130 shares 1979—65,750,607 shares	16,616,000	16,438,000
Capital in excess of par value	71,238,000	43,819,000
Earnings retained in the business	899,366,000	704,294,000
Total shareholders' equity	987,220,000	764,551,000
Total liabilities and shareholders' equity	$1,554,411,000	$1,287,608,000

Consolidated Statements of Changes in Financial Position

Years ended December 31,

Source of Funds:	1980	1979*	1978*
Net earnings	$307,994,000	$246,011,000	$174,892,000
Depreciation	39,418,000	28,808,000	22,254,000
Deferred income taxes	2,044,000	(6,097,000)	2,370,000
Other, net	8,242,000	3,074,000	2,076,000
Funds provided from operations	357,698,000	271,796,000	201,592,000
Increase in long-term debt	—	—	14,359,000
Obligation under capital lease	14,283,000	—	—
Disposal of property, plant and equipment	4,008,000	2,327,000	6,741,000
Proceeds from stock options exercised	15,362,000	12,165,000	9,177,000
Stock issued in connection with acquisitions	12,235,000	33,000	296,000
Reduction of time deposits—long-term	8,566,000	—	—
Other, net	(5,873,000)	7,583,000	733,000
Total source of funds	406,279,000	293,904,000	232,898,000

Application of Funds:			
Dividends	112,922,000	82,513,000	48,658,000
Purchases of property, plant and equipment	132,806,000	100,970,000	82,195,000
Decrease in long-term debt	467,000	12,452,000	—
Capitalized lease	14,660,000	—	—
Purchases of goodwill and other intangibles	23,322,000	4,986,000	2,125,000
Transfer to time deposits—long-term	—	20,241,000	15,725,000
Total application of funds	284,177,000	221,162,000	148,703,000
Increase in working capital	$122,102,000	$ 72,742,000	$ 84,195,000

Changes in Working Capital:			
Current assets—increase (decrease):			
Cash	$ 59,367,000	$ 24,472,000	$ 14,751,000
Accounts and notes receivable	48,596,000	57,762,000	67,556,000
Inventories	39,288,000	91,217,000	50,969,000
Prepaid expenses	2,934,000	5,115,000	5,368,000
	150,185,000	178,566,000	138,644,000
Current liabilities—increase (decrease):			
Notes payable	(8,617,000)	36,533,000	(38,675,000)
Accounts payable	(16,042,000)	22,617,000	28,720,000
Accrued expenses	19,764,000	13,694,000	29,144,000
Income taxes	32,978,000	32,980,000	35,260,000
	28,083,000	105,824,000	54,449,000
Increase in working capital	$122,102,000	$ 72,742,000	$ 84,195,000

*Restated.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Common Stock Issued		Capital in Excess of Par Value	Earnings Retained in the Business
	Shares	Amount		
Balance December 31, 1977, as previously reported	59,951,720	$14,993,000	$11,505,000	$395,982,000
Restatement for companies acquired through poolings of interests in 1980	4,714,003	1,173,000	11,837,000	18,580,000
Balance December 31, 1977, restated	64,665,723	16,166,000	23,342,000	414,562,000
Issued on exercise of stock options	510,637	128,000	9,049,000	—
Issued for acquisition of subsidiary	30,740	8,000	288,000	—
Other	—	—	(922,000)	—
Net earnings for the year	—	—	—	174,892,000
Cash dividends paid	—	—	—	(48,658,000)
Balance December 31, 1978	65,207,100	16,302,000	31,757,000	540,796,000
Issued on exercise of stock options	516,123	129,000	12,036,000	—
Issued for acquisition of subsidiary	27,384	7,000	26,000	—
Net earnings for the year	—	—	—	246,011,000
Cash dividends paid	—	—	—	(82,513,000)
Balance December 31, 1979	65,750,607	16,438,000	43,819,000	704,294,000
Issued on exercise of stock options	467,981	117,000	15,245,000	—
Issued for acquisition of subsidiary	246,542	61,000	12,174,000	—
Net earnings for the year	—	—	—	307,994,000
Cash dividends paid	—	—	—	(112,922,000)
Balance December 31, 1980	66,465,130	$16,616,000	$71,238,000	$899,366,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of SmithKline Corporation and all of its subsidiaries, except for investments in three real estate subsidiaries and in a finance subsidiary. The accounts of foreign subsidiaries are included for their fiscal years ended November 30. All material intercompany accounts and transactions are eliminated in consolidation.

Inventories

Inventories are stated generally at the lower of average cost or market.

Investments and Other Assets

The Company's investments in unconsolidated subsidiaries are accounted for on the equity method. All other assets and investments are carried at cost or less; when the Company believes that there is a permanent impairment in the value of any investment or other asset, it is written down to estimated net realizable value.

Property, Plant and Equipment

Land, buildings and machinery and equipment are carried at cost. The cost of additions and improvements are capitalized, while maintenance and repairs are charged to earnings when incurred. Upon retirement or other disposition of property, plant and equipment, the cost and related depreciation are removed from the accounts; the resulting gain or loss is included in earnings.

Depreciation

Depreciation is based on rates calculated to provide for retirement of property, plant and equipment at the end of their estimated useful lives. The straight-line method of depreciation is generally used for accounting purposes and accelerated methods for income tax purposes.

Goodwill and Other Intangibles

Goodwill, which management believes has continuing value, represents the excess of acquisition costs over the fair value of net assets of purchased businesses. Amounts attributable to acquisitions prior to November 1, 1970 are not being amortized unless there is a diminution in value, while amounts resulting from acquisitions after that date are being amortized over periods from ten to forty years. Deferred debt expense is being amortized over seven years, ending 1981, the noncallable term of the related debt issue; other intangibles are being amortized over their estimated useful lives.

Income Taxes

Deferred income taxes are provided on timing differences between book and tax income. The timing differences relate principally to depreciation, pensions, compensation and allowances. Investment tax credits, which are not material, are recorded under the flow-through method of accounting and are applied as a reduction of income taxes.

Pension Plans

The Company and its domestic subsidiaries have noncontributory pension plans which provide retirement benefits for eligible employees. The Company and certain foreign subsidiaries have separate pension plan arrangements which include insured plans and unfunded plans. Pension costs are generally determined by approved actuarial methods. The Company's policy is to provide currently for pension costs by contributions to the pension funds and through balance sheet accruals.

Earnings Per Share

Earnings per share of common stock are determined by using the average number of common shares outstanding during the year. The effects of unexercised stock options are excluded from the computation since their dilutive effect is not material.

(2) ACQUISITIONS

On February 7, 1980, the Company acquired all the outstanding capital stock of Humphrey Instruments Incorporated, a manufacturer of nonincursive diagnostic eye care instruments, for 257,002 shares of the Company's common stock.

On April 10, 1980, Allergan Pharmaceuticals, Inc., was merged with the Company upon the exchange of 4,642,967 shares of the Company's stock for all of Allergan's outstanding common stock. The exchange was on the basis of 1.10 SmithKline shares for each Allergan share.

The Humphrey and Allergan acquisitions were accounted for as poolings of interests and, accordingly, all previously reported SmithKline financial information has been restated.

Sales and net earnings of the separate companies for the years ended December 31, 1979 and 1978, in thousands, are as follows:

	Sales		Net earnings	
	1979	1978	1979	1978
As previously reported	$1,351,145	$1,112,039	$233,837	$164,075
Humphrey	12,154	8,401	1,081	1,318
Allergan	80,871	60,365	11,093	9,499
	$1,444,170	$1,180,805	$246,011	$174,892

Sales and net earnings of Allergan were $25,100,000 and $2,200,000, respectively, for the three months ended March 31, 1980.

Amounts for Allergan have been restated to conform with SmithKline's policy of including foreign subsidiaries for fiscal year ended November 30.

During 1980, the Company acquired all the outstanding shares of Dionex Corporation, as reorganized, for 246,542 shares of SmithKline stock and purchased two other companies for $10,500,000 cash. These acquisitions were accounted for as purchases and, accordingly, the results of the acquired companies are included in the consolidated results of the Company from the effective date of each transaction. The excess of total acquisition costs over the fair values of the net assets acquired was approximately $19,500,000 and is being amortized over ten years. The results of operations of the acquired companies prior to acquisition are not material to the consolidated financial statements of the Company.

(3) LONG-TERM DEBT AND LINES OF CREDIT

Long-term debt at December 31, 1980, amounting to $121,985,000, consisted primarily of $100,000,000, 8.15% notes which mature on December 15, 1984. After December 15, 1981, the notes may be redeemed at par, in whole or in part, at the option of the Company.

At December 31, 1980, $80,000,000 of unused short-term domestic lines of credit were available to the Company at the lenders' prime rates. In addition to the domestic lines, unused short-term lines of credit of $75,000,000 were available to the Company's foreign subsidiaries at the lenders' best interest rates. Compensating balances and commitment fees are not material, and there are no withdrawal restrictions.

(4) INCOME TAXES

The provision for income taxes, in thousands, consists of the following:

	Federal	Foreign	State & Puerto Rico	Total
1980				
Current	$50,002	$60,447	$27,207	$137,656
Deferred	1,519	374	151	2,044
	$51,521	$60,821	$27,358	$139,700
1979				
Current	$33,274	$69,969	$15,254	$118,497
Deferred	(3,575)	(2,522)	—	(6,097)
	$29,699	$67,447	$15,254	$112,400
1978				
Current	$45,341	$40,863	$11,326	$ 97,530
Deferred	(2,382)	4,952	(200)	2,370
	$42,959	$45,815	$11,126	$ 99,900

Earnings before income taxes of foreign subsidiaries were $232,206,000 in 1980, $202,902,000 in 1979 and $139,201,000 in 1978.

The total provision for income taxes for 1980, 1979 and 1978 amounted to 31.2%, 31.4% and 36.4%, respectively, of earnings before income taxes. The primary reason for the difference between the effective rates and the expected U.S. Federal income tax statutory rate is that certain income of companies operating in Puerto Rico and Ireland is substantially exempt from income taxes and for credits for stock relief in the United Kingdom of approximately $10,000,000 ($.15 per share) in 1980. The exemptions reduced expected income taxes and increased net earnings by approximately $73,000,000 ($1.10 per share) in 1980, $53,200,000 ($.81 per share) in 1979 and $31,100,000 ($.48 per share) in 1978.

During 1979, in an agreement with the Puerto Rican government, the Company elected to convert its operations in Puerto Rico to a status whereby 90% of earnings are exempt from taxes. Subsequent to their acquisition by SmithKline, Allergan's subsidiaries operating in Puerto Rico elected to convert their status whereby 85% of their earnings are exempt from taxes. The combined effective Puerto Rican income tax and withholding tax rates are expected to range between 5% and 11%. To qualify for a reduced rate on withholding taxes from dividends, $45,400,000 in time deposits have been designated as long-term investments. During 1980, 1979 and 1978, dividends of $130,288,000, $90,915,000 and $80,594,000, respectively, were remitted to the United States.

U.S. income taxes have not been provided on $330,000,000 of unremitted foreign earnings because they are or will be reinvested in foreign operations or will be offset by appropriate credits for foreign income taxes paid.

Federal income tax returns of the Company have been examined by and closed with the Treasury Department through December 31, 1975.

During December 1980, the Internal Revenue Service started its examination of the Company's tax returns for the years 1976 to 1978. This examination is in its preliminary stages and it is uncertain what adjustments may be proposed.

(5) STOCK OPTIONS

Activity under the Company's stock option plans is as follows:

	Option Price Range Per Share	Number of Shares 1980	1979
Outstanding beginning of year	$11-$60	1,684,795	1,809,524
Equivalent options assumed in acquisitions	$ 4-$43	–	67,057
Options granted at fair market value	$48-$79	500,465	409,035
Options exercised	$ 4-$50	(467,981)	(516,123)
Options cancelled	$ 4-$65	(101,066)	(84,698)
Outstanding end of year	$ 4-$79	1,616,213	1,684,795
Options exercisable, end of year	$ 5-$60	525,014	
Available for future grants		260,329	

Under the terms of the current plan, 2,400,000 shares of the Company's common stock were available for granting of options to officers and key employees of SmithKline and its subsidiaries.

The plan provides that the option price shall not be less than the market value of the stock at date of grant. Options are exercisable in annual installments equal to 25% of the shares covered by the options commencing one year after date of grant and expire ten years after date of grant. Installments not exercised accumulate and are exercisable at any time on or before the expiration date of the option.

The plan authorizes the granting of qualified or nonqualified stock options, and nonqualified options may include stock appreciation rights, which allow an optionee to surrender all or part of his option in exchange for a lesser number of shares of the Company's common stock having a total market value equal to the excess of the then market value over the option price.

The Company has the right to settle all or part of its obligation arising out of the exercise of a stock appreciation right by the payment of an amount of cash equal to the market price of the shares which it would otherwise have been obligated to deliver. In connection with stock appreciation rights, earnings are charged throughout the year based upon the amounts, if any, by which the market price exceeds the option price.

(6) RETIREMENT PLAN COSTS

Retirement plan costs charged to earnings amounted to $27,500,000 in 1980, $22,100,000 in 1979 and $18,300,000 in 1978.

The actuarial present value of accumulated benefits, assuming a 6% average rate of return, and the net assets available for benefits of the Company's domestic defined benefit plans at January 1, 1980, in thousands, are as follows:

	1980
Actuarial present value of accumulated plan benefits:	
Vested	$135,500
Nonvested	14,600
Total	$150,100
Net assets available for benefits	$151,600

The above data have not been determined for certain pension plans, principally foreign plans, which are not required to report such information to government agencies. The unfunded vested benefits relating to these plans are immaterial.

(7) LEASE COMMITMENTS

Rental expenses charged to earnings amounted to $22,400,000 in 1980, $18,800,000 in 1979 and $14,900,000 in 1978.

During 1980, the Company occupied office space under a long-term lease with a 60% owned unconsolidated subsidiary. This lease has been capitalized at a 10% rate, and the present value of future lease payments of $14,660,000 has been included in property, plant and equipment. Also during 1980, the Company committed itself to a capital lease for additional office space to be occupied in 1981 requiring payment of approximately $2,300,000 per year for fifteen years.

Minimum annual rentals payable under leases with a remaining noncancellable term of more than one year from December 31, 1980, in thousands, are:

	Operating leases	Capital leases
1981	$ 4,810	$ 4,811
1982	4,515	4,811
1983	3,770	4,869
1984	3,057	4,927
1985	2,096	4,987
later years	8,028	69,549
Total	$26,276	$93,954

Certain of the leases provide for payment of taxes, insurance and other charges by the lessee.

(8) BUSINESS SEGMENTS AND GEOGRAPHIC AREAS

A breakdown of the Company's operations by business segment and by geographic area is shown on pages 32 to 34.

(9) INFLATION ACCOUNTING (UNAUDITED)

Certain information concerning the effects of inflation and changing prices on selected financial data is shown on pages 48 and 49.

(10) QUARTERLY DATA (UNAUDITED)

In thousands, except earnings per share.

	1980 Quarter Ended				
	March 31*	June 30	Sept. 30	Dec. 31	Total
Sales	$410,555	$403,695	$481,550	$476,138	$1,771,938
Cost of sales	133,335	134,832	166,562	162,333	597,062
Other operating expenses	169,506	167,011	191,385	194,375	722,277
Earnings before income taxes	102,894	101,019	123,681	120,100	447,694
Income taxes	32,900	32,400	36,200	38,200	139,700
Net earnings	69,994	68,619	87,481	81,900	307,994
Net earnings per share	$ 1.06	$ 1.04	$ 1.32	$ 1.23	$ 4.65

	1979 Quarter Ended*				
	March 31	June 30	Sept. 30	Dec. 31	Total
Sales	$327,852	$341,237	$379,026	$396,055	$1,444,170
Cost of sales	102,961	112,610	125,339	137,780	478,690
Other operating expenses	141,604	142,872	157,169	164,071	605,716
Earnings before income taxes	81,676	85,574	96,514	94,647	358,411
Income taxes	27,825	28,425	26,625	29,525	112,400
Net earnings	53,851	57,149	69,889	65,122	246,011
Net earnings per share	$ .82	$ .88	$ 1.07	$ .99	$ 3.76

*Restated.

Report by Management

The consolidated financial statements and related information for the years ended December 31, 1980, 1979 and 1978 were prepared by management in accordance with generally accepted accounting principles. Financial information included in other sections of the Annual Report is consistent with that in the financial statements.

The Company's systems of internal accounting controls are designed to provide reasonable assurance, at appropriate costs, that its financial and related records fairly reflect transactions, that proper accountability for assets exists, and that established policies and procedures are followed. Among these policies is an ethics policy, which requires employees to maintain highest standards in conducting the Company's affairs, and management level employees to submit certificates of compliance annually. The system of accounting controls also includes frequent contact among management and operating personnel to facilitate open communications.

A professional staff of internal auditors reviews accounting records, controls and practices to assure compliance with corporate policies covering most worldwide operations on a rotational basis annually. The Company's independent auditors, Peat, Marwick, Mitchell & Co., examine the Company's financial statements in accordance with generally accepted auditing standards. Their report expresses an independent opinion on the fairness of the Company's reported operating results and financial position. To arrive at this opinion, the auditors review the Company's internal controls and perform such other tests or auditing procedures as they deem necessary.

The Board of Directors reviews audit and internal controls through an Audit Committee, consisting of four outside Directors, which meets periodically with management, corporate auditors and the independent accountants to review the scope and results of their examinations. The Audit Committee held four meetings during 1980. Both the independent accountants and the corporate auditors have free access to this Committee with or without management being present to discuss the results of their audits.

William T. Rennie
Executive Vice President—Corporate Finance

Kurt W. Reiss
Vice President and Controller

Independent Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
1500 Walnut Street
Philadelphia, Pennsylvania 19102

The Shareholders
SmithKline Corporation:

We have examined the consolidated balance sheets of SmithKline Corporation and subsidiaries as of December 31, 1980 and 1979 and the related consolidated statements of earnings, changes in financial position and shareholders' equity for each of the years in the three year period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of SmithKline Corporation and subsidiaries at December 31, 1980 and 1979 and the results of their operations and the changes in their financial position for each of the years in the three year period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 19, 1981

Management's Discussion and Analysis of Operations and Financial Condition

Sales

1980 consolidated sales reached $1,771,938,000, an increase of 22.7% over 1979. The major proportion of the growth came from higher volumes —overall price increases were estimated to have accounted for approximately 4% of the increase, while differences in foreign exchange rates accounted for less than 1% of growth. 1980 international sales totaled $814,111,000, accounting for 45.9% of corporate sales versus 45.4% in 1979.

Health care segment sales were up 25.0%, led by ethical pharmaceutical products sales of $1,065,477,000, an increase of 23.6% over 1979. Sales of the major product group, gastrointestinal (primarily 'Tagamet'), increased 35.2% to $649,000,000. Sales of 'Contac', the Company's cold preparation, had a satisfactory rebound in 1980 and the introduction of 'Dietac', a diet aid product, in the United States was a major factor in proprietary products sales growth. Animal health products group had sales of $135,895,000, a 17.0% increase, with a strong year in both U.S. and international markets. The Company's ophthalmic and optical products line had 1980 sales of $110,031,000, 36.1% over 1979. Clinical laboratories services in the United States and Canada also enjoyed an excellent sales year, reaching $70,184,000, an increase of 26.8% over 1979.

In the ultrasonic and electronic instruments segment, industrial instruments sales of $141,075,000 for 1980 were 20.8% over 1979, with excellent growth in ultrasonic testing, cleaning and nondestructive testing. The medical instrument group, overall, increased 15.7%. Within this group, however, medical ultrasound and eye care instruments had lower sales in 1980 than in 1979 impacted by rising interest rates on the medical instruments market, while Geometric Data's blood analyzer sales increased by 63.5% over 1979.

During 1980, the Company sold its cosmetics operations which had sales prior to divestiture of $6,966,000, compared with $23,484,000 in 1979.

1979 consolidated sales of $1,444,170,000 represented an increase of 22.3% over 1978 with growth in all major areas of the Company's continuing business segments, except for U.S. proprietary drug products.

Interest and Other Income

Interest income of $29,584,000, primarily from investment funds generated by the Company's operations in Ireland and Puerto Rico, increased by $5,991,000 in 1980. The increase is attributable to higher average interest rates, since average levels of time deposits and securities in 1980 were virtually the same as in 1979. The increase in 1979 over 1978 was also attributable to higher interest rates.

Earnings and Taxes

Consolidated earnings before income taxes of $447,694,000 represented a 24.9% increase over 1979 and represent a pretax profit margin of 25.3% in 1980, as compared with 24.8% in 1979 and 23.3% in 1978. International earnings before income taxes were 51.9% of consolidated total in 1980 versus 56.6% and 50.6% in 1979 and 1978, respectively.

The effective income tax rate in 1980 was 31.2% compared with 31.4% in 1979 and 36.4% in 1978. The difference between these effective tax rates and the statutory U.S. rate for the years involved is due primarily to the Company's Puerto Rican and Irish operations. A more detailed analysis of income taxes is presented in note 4 of the notes to consolidated financial statements on page 41.

Consolidated 1980 net earnings reached $307,994,000, providing a net profit margin of 17.4% in 1980 versus 17.0% in 1979 and 14.8% in 1978.

1980 net earnings per share of $4.65 are based on an average 66,193,000 shares outstanding and are $.89 higher than in 1979.

Costs and Expenses

1980 cost of sales of $597,062,000 represents 33.7% of sales, an increase in the consolidated cost of sales to sales ratio of 0.6% over 1979. Generally, production costs of the major product lines, in relation to sales, held steady in comparison with 1979, offsetting inflation by increased productivity and minor price increases. However, production problems and inventory write-offs in medical ultrasound and nondestructive testing increased cost of sales and decreased operating profits. Cost of sales was also impacted by product mix changes in several business lines and by the discontinuation of the cosmetics business. In 1978, consolidated cost of sales was 35.0% of sales due to a less favorable overall product mix.

Marketing, administrative and general expenses of $586,445,000 represented 33.1% of consolidated sales in 1980. These increased only 16.7% over 1979, reflecting a lower rate of increase in selling activity, which had been expanding rapidly in the past several years; in both 1979 and 1978, these expenses were 34.8% of sales.

Management's Discussion and Analysis of Operations and Financial Condition (continued)

Research and development expenditures of $135,832,000 were 31.6% higher in 1980 than in 1979 and rose to 7.7% of consolidated sales, up from 7.1% in 1979 and 6.9% in 1978, reflecting continued significant increases in research and development activities by all of the Company's major business groups.

The increase in interest expense of $6,132,000 is due primarily to higher interest rates; average borrowings for the two years were almost identical. Other expenses and minority interests were $14,993,000 or $3,575,000 over 1979, reflecting the write-off of intangibles relating to the disposal of the Company's Sea & Ski business and $3,700,000 of expenses incurred in 1980 in connection with the acquisitions of Allergan Pharmaceuticals, Inc., and Humphrey Instruments Incorporated.

The increase of $5,895,000 in other expenses in 1979 versus 1978 was primarily due to increased foreign exchange losses, losses on sale of assets and amortization of certain intangibles.

Effects of Inflation

Certain information concerning the effects of inflation and changing prices on selected financial data is shown on pages 48 and 49.

Liquidity and Capital Resources

In 1980 and 1979, funds from operations have generally provided the cash needed to operate the business. At December 31, 1980, consolidated holdings of cash and time deposits were $352,644,000, compared with $301,843,000 at December 31, 1979.

The ratio of cash and time deposits to total debt was 1.84 to 1 at December 31, 1980 and 1.62 to 1 a year ago. Dividends totaling $186,288,000 and $125,915,000, respectively, were remitted from operations in Puerto Rico and Ireland in 1980 and 1979, respectively.

The following shows the principal uses of cash generated from operations during the last two years, in thousands.

	1980	1979
Capital expenditures	$132,806	$100,970
Dividends to shareholders	$112,922	$ 82,513
Increased working capital	$122,102	$ 72,742

(For details, see Changes in Financial Position, page 38.)

In 1980, the Company made three major acquisitions: Humphrey Instruments Incorporated, Allergan Pharmaceuticals, Inc., and the Gas Plasma Division of Dionex Corporation. These acquisitions were made by an exchange of the Company's stock, minimizing cash impact. Two smaller acquisitions were made during 1980 for a total of approximately $10,500,000 in cash.

Total debt was $191,226,000 and $186,027,000 at December 31, 1980 and 1979, respectively. The 1980 increase in debt was primarily due to capitalizing the lease on the Company's new headquarters building which amounted to $14,283,000 at December 31, 1980.

Long-term debt primarily includes $100,000,000 of 8.15% notes which mature December 15, 1984. These notes are callable, at the Company's option at par, after December 15, 1981. Based on current market conditions, the Company does not intend to call the notes before maturity. The balance of long-term debt is comprised of a number of international borrowings undertaken to provide local financing in several overseas operations.

Shareholders' equity increased $222,669,000 during 1980, to $987,220,000 at December 31, 1980. The ratio of shareholders' equity to debt rose to 5.16 to 1, compared with 4.11 to 1 a year ago.

During 1981 the Company expects to spend approximately $170,000,000 for research and development, $200,000,000 for property, plant and equipment and expects to maintain its dividend policy. Management believes operations will generate the funds for these expenditures and hence does not plan to increase borrowings materially except for capitalizing a lease already committed to in connection with a new office building in France.

The Company holds majority ownership in partnerships owning the recently constructed Franklin Plaza Hotel and the SmithKline office building. The financial statements of these ventures, which are not consolidated, show the following at December 31, 1980, in thousands.

	Hotel	Office Building
Property, plant and equipment	$45,000	$36,200
Other assets	6,300	6,600
Total assets	$51,300	$42,800
Debt	$37,500	$38,400
Other liabilities and equity	13,800	4,400
Total liabilities and equity	$51,300	$42,800

The Company is guarantor, along with other partners, of certain of the above debt. The Company's share of the contingent liability amounted to approximately $5,000,000 at December 31, 1980.

Selected Financial Data

Years ended December 31,

	1980	1979*	1978*	1977*	1976*
Summary of Operations†	In thousands, except amounts per share				
Revenue:					
Sales	**$1,771,938**	$1,444,170	$1,180,805	$835,915	$718,481
Interest income	**29,584**	23,593	15,702	13,996	14,509
Royalties and other income	**5,702**	5,538	9,259	7,340	3,938
	1,807,224	1,473,301	1,205,766	857,251	736,928
Costs and expenses:					
Cost of sales	**597,062**	478,690	413,841	315,101	279,287
Marketing, administrative and general	**586,445**	502,522	411,078	309,656	262,254
Research and development	**135,832**	103,194	81,859	65,731	58,073
Interest expense	**25,198**	19,066	18,673	19,472	16,684
Other expenses	**14,993**	11,418	5,523	2,571	5,683
	1,359,530	1,114,890	930,974	712,531	621,981
Earnings before income taxes	**447,694**	358,411	274,792	144,720	114,947
Provision for income taxes	**139,700**	112,400	99,900	48,200	37,200
Net earnings	**$ 307,994**	$ 246,011	$ 174,892	$ 96,520	$ 77,747
Net earnings per share	**$ 4.65**	$ 3.76	$ 2.69	$ 1.49	$ 1.21
Dividends paid per share	**$ 1.725**	$ 1.32	$ .78	$ .54	$ .50
Average number of shares outstanding	**66,193**	65,492	65,070	64,779	64,258

	1980	1979*	1978*	1977*	1976*
Financial Position at December 31†	In thousands				
Current assets	**$ 988,722**	$ 838,537	$ 659,971	$521,327	$484,313
Current liabilities	**396,123**	368,040	262,216	207,767	191,959
Working capital	**592,599**	470,497	397,755	313,560	292,354
Property, plant and equipment (net)	**421,788**	317,748	247,913	194,713	163,601
Total assets	**1,554,411**	1,287,608	1,013,391	801,693	711,031
Long-term debt	**121,985**	122,452	134,904	120,545	109,887
Shareholders' equity	**987,220**	764,551	588,855	452,788	390,114
Other Statistics	Dollars in thousands				
Dividends paid	**$ 112,922**	$ 82,513	$ 48,658	$ 33,206	$ 30,174
Capital expenditures for year	**132,806**	100,970	82,195	50,997	32,471
Depreciation expense for year	**39,418**	28,808	22,254	16,702	14,586
Number of employees	**21,196**	19,742	17,996	16,278	15,118

*Restated.

†See management's discussion and analysis on pages 45 and 46.

Effect of Inflation on Selected Financial Data

Background Information

The effects of continued inflation tend to distort certain traditional accounting measurements. In an attempt to provide meaningful financial information about the effect of changing price levels, the Financial Accounting Standards Board has issued Statement 33, "Financial Reporting and Changing Prices," which sets forth two methods for restating historic cost data originally presented in financial statements. The supplementary information shown on the facing page is prepared in accordance with these requirements.

The various methods are described below.

Primary Statement—Historic Cost

This is the basis on which the normally provided financial statements as shown on pages 35 to 39 have always been prepared. Transactions are reported according to actual amounts paid or received on the date of the transaction. Recognition is not given to any subsequent increases or decreases in purchasing power or price levels.

Constant Dollar

This presentation takes the transactions originally reported and adjusts them to 1980 constant dollars by applying the U.S. Department of Labor's Consumer Price Index for All Urban Consumers (CPI-U) as the measure of price change. While this index is a broad indication of general price levels, the data do not necessarily indicate changes in the Company's operating costs or the appraised value of its assets.

Current Cost

In this presentation the data are adjusted to reflect the current value of inventories and property, plant and equipment by use of specific pricing techniques, including reference to appraised values and indexes. Depreciation expense and cost of goods sold are indicated as adjustments to primary statement of earnings, reflecting the increase in current value of inventory and property, plant and equipment.

Management Comments

Of the two presentations, management believes that the constant dollar method probably comes closer to depicting the general levels of inflation on the Company's operations. However, there are many factors affecting profitability in the health care segments of the Company's business which cannot be measured by broad-based price indexes. These include the ever-increasing demands made by government regulations, especially affecting the cost of research and development in discovering new pharmaceutical compounds as well as their impact on the manufacturing of products and increases in the cost of capital.

The impact of new products, significant volume-related productivity gains and minor price increases have helped the Company to offset the impact of inflation to a great extent during the last few years. The 1976-1980 compound annual sales growth reported on a historic basis averaged 25%. Adjusting the sales to 1980 constant dollars, the compound growth amounted to 14%. Applying the inflation adjustments, the 1980 reported net earnings are reduced from the $308,000,000 reported to approximately $260,000,000 when measured in constant dollars and $252,000,000 on a current cost basis, a decrease ranging from 15% to 18%. Dividends per share reflecting inflation adjustments have still grown an average rate of 24.5% per annum. Tax regulations, however, do not permit the adjustment of pretax income for the effect of inflation. Hence, the real effect of income taxes is understated. As reported, the effective tax rate in 1980 was 31.2%; however, the ratio of tax to the lower pretax incomes reported on an inflation-adjusted basis increases the tax rate to 35% on a constant dollar basis and to 35.6% on a current cost basis.

The loss and decline in purchasing power of net amounts owned arise from the fact that the excess in value of monetary assets, namely those convertible to cash, vis-à-vis monetary liabilities, those eventually payable in cash, declined during the year due to the rate of inflation. As with any company with cash assets, there is an imputed loss in purchasing power of such assets as measured by the Consumer Price Index.

Statement of Earnings Adjusted for Changing Prices

	Year ended December 31, 1980 In thousands, except earnings per share		
	Primary Statements Historic Cost	1980 Constant Dollars	Current Cost
Sales	$1,771,938	$1,771,938	$1,771,938
Cost of sales (excludes depreciation)	571,108	606,926	613,370
Other expenses (excludes depreciation)	713,718	713,718	713,718
Depreciation expense	39,418	51,740	52,958
Provision for income taxes	139,700	139,700	139,700
Net earnings	$ 307,994	$ 259,854	$ 252,192
Net earnings per share	$ 4.65	$ 3.93	$ 3.81
Increase in specific prices (current cost) of inventories and property, plant and equipment held during the year			$ 113,209
Effect of increase in general price level			100,429
Excess of increase in specific prices over increase in the general price level			$ 12,780

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

	In thousands, except amounts per share and price index				
	1980	1979	1978	1977	1976
Sales—historic	**$1,771,938**	$1,444,170	$1,180,805	$ 835,915	$ 718,481
Average 1980 dollar	**$1,771,938**	$1,639,000	$1,491,000	$1,137,000	$1,040,000
Constant Dollar Data (in 1980 dollars)					
Net earnings	**$ 259,854**	$ 211,826			
Net earnings per common share	**$ 3.93**	$ 3.23			
Net assets at year end	**$1,060,900**	$ 847,300			
Current Cost Data					
Net earnings	**$ 252,192**	$ 203,091			
Net earnings per common share	**$ 3.81**	$ 3.10			
Net assets at year end	**$1,129,400**	$ 883,800			
Increase in specific prices, net of inflation	**$ 12,780**	$ 2,915			
Loss from decline in purchasing power of net amounts owned	**$ (15,500)**	$ (13,985)			
Cash dividends declared per share	**$ 1.73**	$ 1.50	$ .99	$ .73	$ .72
Market price per share at year end	**$ 80.00**	$ 71.36	$ 57.78	$ 33.83	$ 28.73
Average Consumer Price Index	**246.8**	217.4	195.4	181.5	170.5
Current Cost at December 31, 1980					
Inventory	**$ 356,787**				
Property, plant and equipment, net	**$ 615,491**				

Board of Directors


Robert F. Dee


Henry Wendt


Donald van Roden


Samuel H. Ballam, Jr.


Charles A. Berry, M.D., M.P.H.


Carter L. Burgess


William R. Grant


Lewis E. Harris, Sc.D.

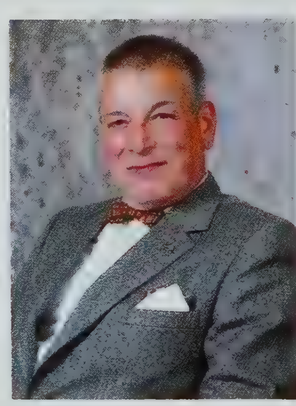

Gavin S. Herbert


Mary T. Kimpton, Ph.D.


Francis P. Lucier


Samuel P. Martin, M.D.


Ralph A. Pfeiffer, Jr.


Thomas M. Rauch


William T. Rennie


James M. Stewart

Board of Directors

Robert F. Dee	Chairman of the Board and Chief Executive Officer
Samuel H. Ballam, Jr.	Chairman of the Board, Hospital of the University of Pennsylvania
Charles A. Berry, M.D., M.P.H.	Chairman and President of The National Foundation for the Prevention of Disease, Houston, Texas
Carter L. Burgess	Chairman, Foreign Policy Association, a nonpartisan, nongovernmental, nonprofit organization for the advancement of public education on major foreign policy issues
William R. Grant	President of MacKay-Shields Financial Corporation, investment counselors
Lewis E. Harris, Sc.D.	Formerly, Chairman of the Board. Retired from the Board during 1980
Gavin S. Herbert	Vice President
Mary T. Kimpton, Ph.D.	Economic Consultant
Francis P. Lucier	Chairman of the Board and Chief Executive Officer of The Black and Decker Manufacturing Company
Samuel P. Martin, M.D.	Professor of Medicine, School of Medicine, and Professor of Health Care Systems, Wharton School, and Director of The Robert Wood Johnson Clinical Scholar Program, University of Pennsylvania
Ralph A. Pfeiffer, Jr.	Chairman and Chief Executive Officer of IBM World Trade Americas/Far East Corporation and a Senior Vice President of International Business Machines Corporation
Thomas M. Rauch	Retired. Formerly, Chairman of the Board
William T. Rennie	Executive Vice President
James M. Stewart	Retired. Formerly, General Manager of SmithKline Diagnostics
Donald van Roden	Vice Chairman of the Board
Henry Wendt	President and Chief Operating Officer

Corporate Officers

Robert F. Dee	Chairman of the Board and Chief Executive Officer
Henry Wendt	President and Chief Operating Officer
Donald van Roden	Vice Chairman of the Board
Alan J. Dalby	Executive Vice President, Pharmaceutical Products
Stanley E. Jacke	Executive Vice President, Animal Health, Medical Diagnostics and Ultrasonic Products
William T. Rennie	Executive Vice President, Corporate Finance
Robert J. Byrnes	Vice President, Chemical Division
Thomas M. Collins	Vice President, U.S. Pharmaceutical Products
Bryce Douglas, Ph.D.	Vice President, Research and Development, Pharmaceutical Products
George W. Ebright	Vice President, Animal Health Products
Peter Godfrey	Vice President, Consumer Products
John Groom	Vice President, International Pharmaceutical Products
Gavin S. Herbert	Vice President, Eye and Skin Care Products
Peter Hickman	Vice President, Corporate Personnel
Richard V. Holmes	Vice President, Secretary and General Counsel
William E. Learnard	Vice President, Corporate Affairs
Allen Misher, Ph.D.	Vice President, Medical Diagnostics
John K. Nevin	Vice President, Special Real Estate Investments
Robert J. Novello	Vice President, Ultrasonic Products
Kurt W. Reiss	Vice President and Controller
Richard W. Rodney	Vice President, Corporate Technical Services
James E. Hamblen	Treasurer

Committees of the Board of Directors

Audit Committee
Carter L. Burgess, Chairman
William R. Grant
Mary T. Kimpton, Ph.D.
James M. Stewart

Finance Committee
Samuel H. Ballam, Jr., Chairman
Robert F. Dee
William R. Grant
Mary T. Kimpton, Ph.D.
Samuel P. Martin, M.D.
Thomas M. Rauch

Nominating Committee
Francis P. Lucier, Chairman
Carter L. Burgess
Robert F. Dee

Compensation Committee
William R. Grant, Chairman
Samuel H. Ballam, Jr.
Charles A. Berry, M.D., M.P.H.
Samuel P. Martin, M.D.
Thomas M. Rauch

Stock Exchanges and Prices

The Company's common stock is listed on The New York Stock Exchange, the Philadelphia Stock Exchange and the Swiss Stock Exchanges and is traded on various other regional stock exchanges in the United States. A summary of the quarterly price ranges for the common stock as reported on the New York Stock Exchange Composite Tape for 1980 and 1979, restated (to the nearest eighth) for the two-for-one stock split in May 1979, follows:

Quarter	1st	2nd	3rd	4th
1980 High	65¼	61¾	66½	80⅝
1980 Low	43½	45	56	62½
1979 High	48½	50	52¾	63¼
1979 Low	42¾	38½	41¾	46⅝

Dividends

The Company has paid cash dividends on its common stock in each year since 1923. The Company intends to continue paying cash dividends, subject to future business conditions and the operations and financial condition of the Company.

During 1980 the Company paid dividends totaling $1.725 per share, compared with $1.32 per share paid in 1979, when adjusted for the two-for-one stock split in May 1979. A summary of the quarterly dividends paid during these periods follows:

Quarter	1st	2nd	3rd	4th
1980	$.415	$.415	$.415	$.48
1979	.30	.30	.36	.36

In January 1981 the Board of Directors declared a first quarter dividend of $.48 per share. This dividend is payable on March 20, 1981 to shareholders of record on February 10, 1981.

Dividend Reinvestment Plan

An automatic dividend reinvestment plan for SmithKline shareholders is available through the Morgan Guaranty Trust Company of New York. The plan provides a convenient and economical way for shareholders to increase their holdings in SmithKline stock by the purchase of full and fractional shares with their dividends and any voluntary cash payments they may choose to make.

Participants are not charged brokerage commissions for shares purchased for their accounts or any administrative service fees. Since these costs are paid by the Company, the total amount of a participant's dividend and voluntary payment is invested on his behalf. Participation is entirely voluntary, and a shareholder may enroll or withdraw from the plan at any time.

Further information concerning the plan may be obtained from the Company's Shareholder Relations Department.

Form 10-K Annual Report—Available to Shareholders

A copy of the Company's Form 10-K annual report filed with the Securities and Exchange Commission may be obtained without charge by writing to Frank J. Kochta, Assistant Treasurer, SmithKline Corporation, One Franklin Plaza, P.O. Box 7929, Philadelphia, PA 19101. There are no accounting differences between the financial statements presented in this Annual Report and the Form 10-K report, but the Form 10-K report does provide certain supplemental information as required by SEC regulations.

Transfer Agents and Registrars

The Philadelphia National Bank
P.O. Box 13833
Philadelphia, PA 19101

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, NY 10015

Dividend Disbursing Agent

The Philadelphia National Bank
P.O. Box 13833
Philadelphia, PA 19101

Annual Meeting

The annual meeting of shareholders will be held on Wednesday, April 22, 1981, in Philadelphia. Formal notice of the meeting together with the proxy statement and form of proxy will be mailed to each holder of common stock.

ALAN WACHTER
Manager, Media Communication

SmithKline
CORPORATION
P.O. Box 7929, Phila., PA 19101
(215) 854-5160

SmithKline
CORPORATION

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